



Changing and Persisting Patterns of International Investment: French and German Capital in Nineteenth- and Twentieth-Century Spain

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In this paper, we address the long-term evolution of international investment, examining patterns in two major home economies (France and Germany) and a major host economy (Spain) over 150 years. We look at French and German investment models, the ways they related to the wide institutional context, cultural background, and technological and organizational abilities of French and German firms, and how they have changed in response to challenges. We pay particular attention to the predominantly “political” *versus* “technical” nature of French and German investment, as well as to business and economic diplomacy in each country. We conclude that, although both models show a considerable degree of inertia over time, the French pattern underwent significant changes that helped French capital and expertise to overcome a long period of decline and play a leading role in Spain’s late industrialization and ongoing transformation into a service economy. In contrast, the German pattern was strikingly stable, closely linked to German firms’ original focus and capabilities as they overcame major exogenous shocks in the central decades of the twentieth century.

The Making of a FDI Model: French Capital in Spain, c. 1800-1913

One of the most interesting chapters of the first globalization wave was written by French foreign direct investment (FDI).¹ Scholars have quite

¹ Kevin H. O’Rourke and Jeffrey G. Williamson, *Globalization and History: The Evolution of a Nineteenth-Century Atlantic Economy* (Cambridge, Mass., 2000).

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satisfactorily explained why slow-growing France became home to so many international banks and firms, making the country the second-largest capital exporter in the nineteenth century.² Several authors have pointed out the marked political nature of French overseas investment, as opposed to the commercial and technical nature of British and German international investment.³ The Spanish experience of the pioneering business people who ventured beyond the Pyrenees perfectly fits the French model of foreign investment. Spain was a “backward” country whose modernizers had admired France. Much of the Spanish bureaucracy and higher education system (trade and engineering schools), for instance, was French-inspired.

From a classical theoretical perspective, French ownership advantages were matched by Spanish host virtues. Whereas French investors had capital and technology to offer, Spain was a virgin market with weak industrial impulses that stood just across the border. Ideology, however, was also important in the decades following the French Revolution. Note that the first generations of French international capitalists were profoundly influenced by Saint-Simonism.⁴ The Péreire brothers, the most conspicuous actors in French investment in nineteenth-century Spain, believed in the new society imagined by the disciples of Henry de Saint-Simon.⁵ One of them, Michel Chevalier, taught them about the Mediterranean system, an efficient railroad network that was to link together Africa, Europe, and Asia. Spain, a natural bridge between Europe and Africa, actually became an important piece within this idealistic project.

Thus, the take-off conditions were excellent. “Spain,” Emile Péreire wrote, “is like the new California . . . the country needs only an efficient railway network and capable entrepreneurs.”⁶ The early history of French direct investment in this European “California” began with the prospective research trips, market examinations, and political contacts promoted by large investors such as Péreire.⁷ At the same time, some French families

² Rondo Cameron, *Francia y el desarrollo económico de Europa, 1800-1914* (Madrid, 1971); Michael Smith, “Putting France in the Chandlerian Framework: France’s 100 Largest Industrial Firms in 1913,” *Business History Review* 72 (Spring 1998): 46-85.

³ Albert Broder, “Les investissements français en Espagne au XIX siècle: essai de quantification,” *Revue d’Histoire économique et sociale* 54, no. 1 (1976): 29-63; O’Rourke and Williamson, *Globalization and History*.

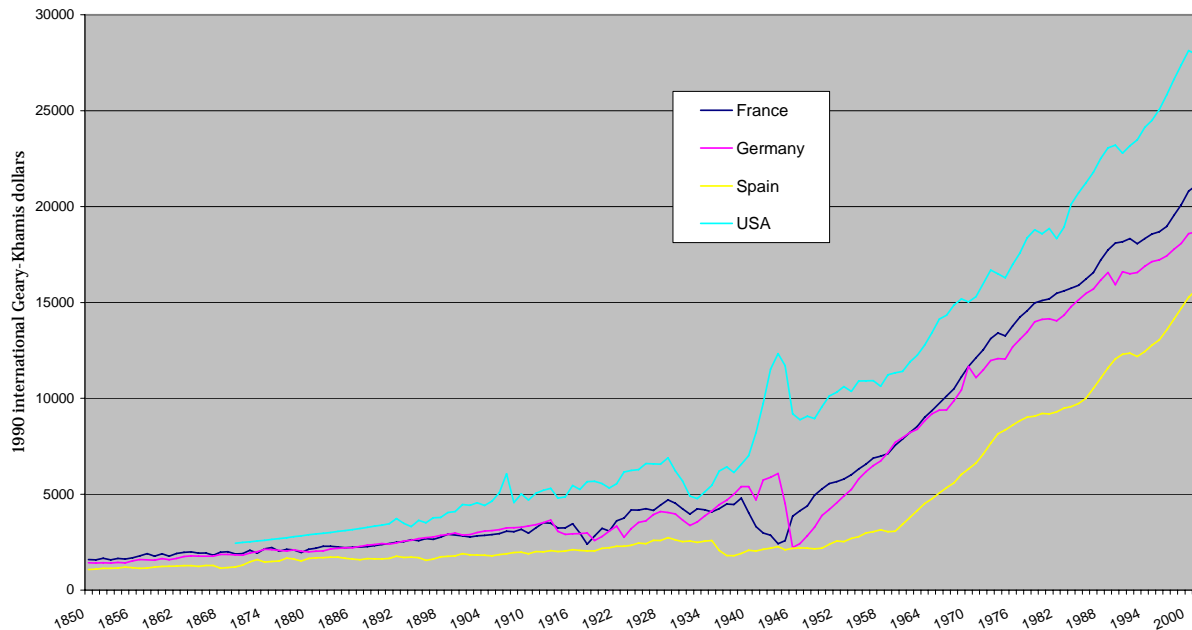
⁴ Pierre Ansart, *Saint-Simon* (Paris, 1969).

⁵ Alexander Gerschenkron, *El atraso económico en su perspectiva histórica* (Barcelona, 1968).

⁶ Broder, “Les investissements français en Espagne au XIX siècle,” 63.

⁷ M. F. Le Play, *Observations sur l’histoire naturelle et sur la richesse minérale de l’Espagne* (Paris, 1834).

FIGURE 1
Evolution of French, German, American, and Spanish per capita GDP, 1850-2001



Sources: Albert Carreras and Xavier Tafunell, eds., *Estadísticas históricas de España: Siglos XIX-XX*, 2d rev. ed. (Bilbao, 2005); Angus Maddison, *The World Economy: Historical Statistics* (Paris, 2003).

(Cros, Lebon, Mahou, Delclaux, and Rivière) successfully ventured out on their own into the manufacture of chemicals, gas, beer, glass, and metal. On the other hand, there is abundant evidence of the political nature of early French investment in Spain, particularly the intensity and effectiveness of French lobbies.⁸ Because of the chronic weakness of the Spanish government and the better control of information by French bankers, the latter were always ahead. Who were those bankers? They were, first, the Rothschild family, followed by the so-called Péreire and Prost-Guilhou clans.⁹ Their control of Almaden's legendary state-owned mercury mines in southern Spain and of the tobacco monopoly is just the tip of the iceberg.¹⁰ Yet French FDI really gathered momentum in 1855, with the passage of a set of laws to regulate foreign investment and to establish the rules of the railway business (the most important being the

⁸ Francisco Comín, *Hacienda y Economía en la España Contemporánea (1800-1936)* (Madrid, 1988).

⁹ Teresa Costa Campí, *Financiación Exterior del Capitalismo Español en el siglo XIX* (Barcelona, 1983).

¹⁰ Francisco Comín and Pablo Martín Aceña, *Tabacalera y el estanco de tabaco en España, 1636-1998* (Alicante, 1991).

Railways, Banking and Mining Laws of 1855-1856). Although there are few studies of French lobbyism, it is no coincidence, according to several authors, that French investment boomed just after 1855.¹¹

With the groundwork done, it did not take long for the banks to obtain the first contracts to exploit mines and build the first railways. Crédito Mobiliario (CM) and the Compañía de Ferrocarriles del Norte de España (Norte), on the one side, were both under Péreire's control. Rothschild's Spanish subsidiary and the Madrid-Zaragoza-Alicante (MZA) railway company, along with the already mentioned Prost-Guilhou and Paribas, were the shining stars during this dynamic period of French direct investment in Spain. In tune with Saint-Simon's thinking, banks played a fundamental role in this process. Most of the capital they were able to drain went to railways, mining, and utilities. With demand weaker than expected, however, profits were, overall, disappointing. Nevertheless, both industrial activity and foreign investment soared. Their joint action resulted in the pre-eminence of French capital in the take-off of the Spanish industrial revolution (see Table 1). From 1850 through 1913, France accounted for most of the FDI in Spain. Trade statistics show that from 1855 through 1913, France remained Spain's main trade partner (see Figures 2a and 2b). The pattern was simple: Spanish wine and other primary goods were exchanged for French manufactures.¹²

TABLE 1
Main Direct Investors in Spain, 1851-1913
(millions of francs)

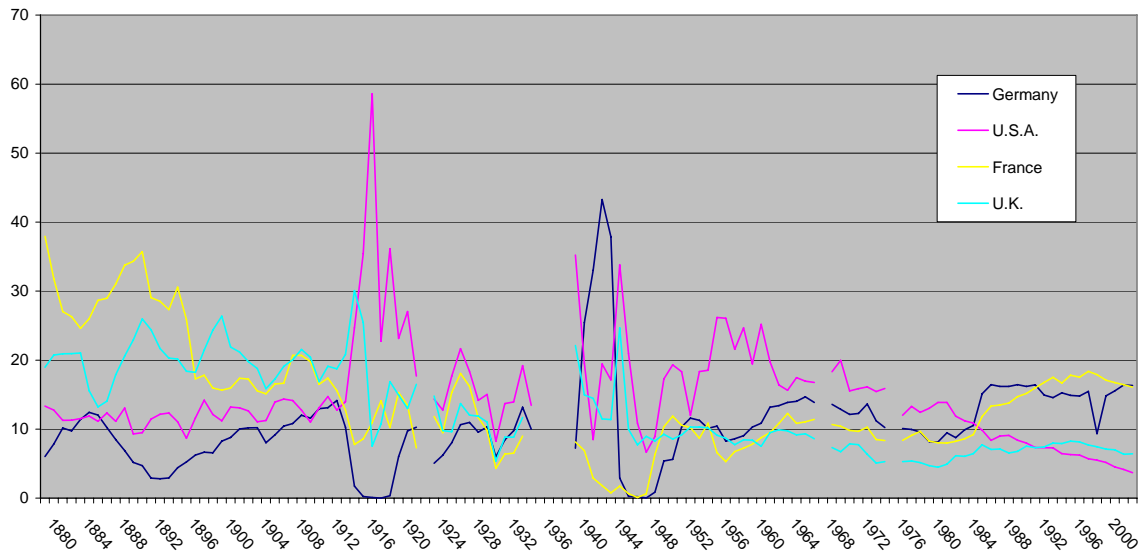
Period	France	Belgium	Great Britain	Germany	Others
1851-1860	312	11	3	-	3
1861-1870	541	60	9	-	-
1871-1880	217	44	213	14	-
1881-1890	437	44	227	-	10
1891-1900	161	69	73	76	4
1901-1913	397	144	151	45	-

Source: Broder, "Les investissements français en Espagne au XIX siècle."

¹¹ Albert Broder, "Le rôle des intérêts étrangers dans la croissance économique de l'Espagne, 1815-1913: Etat-entreprise et histoire" (Ph.D. diss., Lille, 1981); Gabriel Tortella, *Los orígenes del capitalismo en España: banca, industria y ferrocarriles en el siglo XIX* (Madrid, 1973); Jordi Nadal, *El fracaso de la revolución industrial en España, 1814-1913* (Esplugues de Llobregat, 1975); Alfonso de Otazu, *Los Rothschild y sus socios españoles, 1820-1850* (Madrid, 1987).

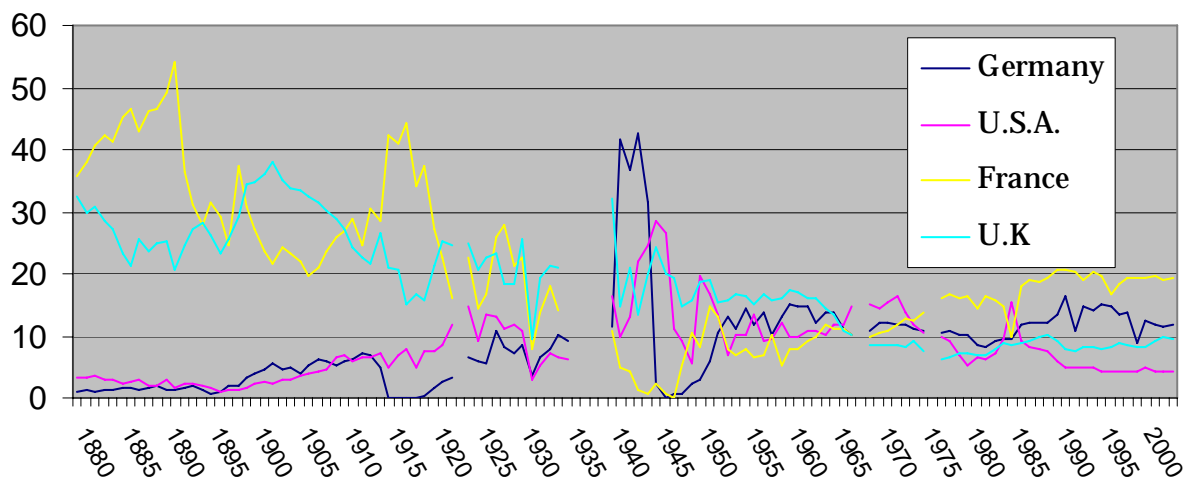
¹² *Estadísticas del Comercio Exterior de España* [hereafter, ECEE] (Madrid, 1856-2005).

FIGURE 2a
Spain's Main Trade Partners, 1880-2003
(Imports, %)



Source: ECEE, 1880-2003.

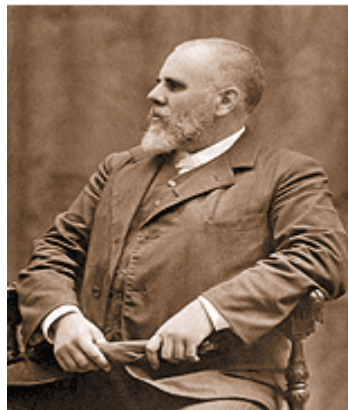
FIGURE 2b
Spain's Main Trade Partners, 1880-2003
(Exports, %)



Source: ECEE, 1880-2003.

We know more about the Spanish friends of these pioneering French capitalists than about their relationship with the French government. In this early stage of French investment in Spain, official diplomacy was apparently passive. At best, diplomats were attentive to trade agreements. Helpful Spaniards were awarded seats, but no executive power, on the boards of the new companies. We also know that the largest French firms were managed by a powerful director-general (usually an engineer) who took full responsibility, periodically reporting to his Paris-based superior. This very personal sort of capitalism, however, did not prevent French firms from hiring Spaniards.¹³ Eduardo Maristany (see Figure 3) and Jules Aron are good examples of the implementation of this managerial tradition. They developed their managerial skills in Rothschild's firms (MZA and Peñarroya). Péreire hired another engineer, Juan Barat, to manage the railway company Norte, whereas Leon Cocagne (the long-standing president of the French Chamber of Commerce in Madrid and, thus, one of the main characters of French-Spanish nineteenth-century business) was the key person at the Hipotecario and Español de Crédito banks. There are further examples in the literature.¹⁴ The powerful director general was to have a strong influence on the evolution of Spanish management.

FIGURE 3
Eduardo Maristany, MZA's Director-General



Source: Fundación de los Ferrocarriles Españoles, Madrid.

¹³ Smith, "Putting France in the Chandlerian Framework."

¹⁴ P. P. Ortúñez, "Propiedad y control de las compañías ferroviarias españolas: el caso de MZA, 1913-1941," in *Railway Management and Its Organisational Structure: Its Impact on and Diffusion into the General Economy*, ed. Clara Eugenia Núñez (Sevilla, 1998); Miguel-Ángel López Morell, *La Casa Rothschild en España* (Madrid, 2005).

German Capital in Spain's Second Industrial Revolution, c.1880s-1936

Early German explorers of the Spanish market lacked the utopian background of the French pioneers. The *Belle Époque* witnessed the rise of imperial Germany as an industrial power and the transformation of Spain into one of the markets that the old (Britain, France) and new (Germany, the United States) powers sought to dominate. German leadership was based on capital- and knowledge-intensive industries (for example, chemical and electro-technical), a close relationship between industry and banking, and a strong commitment to exports. The ability to serve foreign markets became crucial to sustaining the investment and research efforts made by German industrialists at home. German firms soon found that Spain was an interesting market, full of promise, and that they could get on well with their local partners and the institutional environment, however unstable. We should note that Spanish Germanophilia was on the rise from the late nineteenth century, based on the absence of wars as well as on admiration for scientific achievements and various moral attributes popularly attached to the German people and their military.

Personal relations were important during this exploration of the Spanish market by the most internationally oriented German firms. Initially the most influential person was Arthur Gwinner.¹⁵ He was just 24 years old when he arrived in Madrid in 1880 as a French bank employee.¹⁶ In the Spanish capital, he succeeded in establishing contacts with the local bourgeoisie and with influential people such as the politician Segismundo Moret. Six years later, Gwinner went back to Germany as one of the directors of the Deutsche Bank. From there he took an active part in the creation of the Banco Hispano-Alemán (1886), the Compañía General Madrileña de Electricidad (1889), and the Barcelona and Madrid branches of the Deutsche Bank (Banco Alemán Transatlántico, 1904 and 1907).

German direct investment focused, quite reasonably, on the most developed regions of Spain (particularly Catalonia and Madrid) and on the fields where German firms had clear leadership: the chemical, pharmaceutical, and electro-technical industries. The very first investments, however, were in mining, a field in which German firms lagged far behind their French and British competitors. Krupp, Degussa, and Lurgi entered the Spanish market for raw materials as partners of European companies with much more international experience. It was after this learning experience, and in response to the mounting protectionism displayed by Spanish governments, that the largest German

¹⁵ Javier Loscertales, *Deutsche Investitionen in Spanien, 1870-1920* (Stuttgart, 2002).

¹⁶ Arthur Gwinner, "La política comercial de España en los últimos decenios," in *Textos Olvidados*, ed. Fabian Estapé (Madrid, 1973), 253-333; Arthur Gwinner, *Lebenserinnerungen* (Frankfurt, 1992).

electro-technical firms established a pattern of German direct investment in Spain. This consisted of creating firms with Spanish names, partners, and presidents, identified with the protectionist goals of the national industry, but fully controlled by their German matrixes. Such was the case for Allgemeine Elektrizitäts-Gesellschaft (AEG), a company established in 1902 that was very active in the electrification of Spain's largest towns.

According to Javier Loscertales and to our own research, the distribution of the Spanish market among foreign suppliers was more a question of diplomacy than of prices.¹⁷ The long-lasting relationship between AEG and the Spanish industrial banks was the basis for Francesc Cambó's personal wealth and economic influence and for the first Spanish multinational firm, Compañía Hispano-Americana de Electricidad (CHADE).¹⁸ Siemens' position was linked to Luis Muntadas, another Catalan. Unlike the rest of the electro-technical firms, however, Siemens followed a strategy of internalization by establishing a factory in Cornellà near Barcelona in 1910.

As for the chemical industry, most firms made only modest investments before the Great War.¹⁹ Their main interest was in selling abroad and providing good service to their customers. The impressive rise of productivity achieved by the German synthetic dye and pharmaceuticals industries up to 1913 neutralized the increasing tariffs with which the Spanish government sought to protect domestic manufacturers. The success of the German firms (later to include IG Farben), all with commercial outlets near Barcelona's textile industry, was undeniable; in 1913 they held about 80 percent of the Spanish market for synthetic dyes.

In spite of the protectionist drive of the Spanish government from 1892 onward, the second industrial revolution took off with the assistance of foreign (increasingly German) capital and knowledge. Spain's neutrality throughout the First World War gave advantage to both domestic and foreign (Swiss, American) competitors of German industry. Moreover, in 1917, the Spanish government passed a law that explicitly protected national industries. The German business community, already troubled by the war, founded the German Chamber of Commerce that same year in Barcelona.²⁰

Even though much of the domestic industrial impetus proved unviable after the war, and protectionism revealed itself as more rhetorical than

¹⁷ Bundesarchiv Berlin [hereafter, BA], R/901.

¹⁸ Núria Puig and Adoración Álvaro, "¿Misión imposible? La expropiación de los bienes alemanes en España, 1945-1975," *Investigaciones de Historia Económica* 7 (2007): 103-32.

¹⁹ Núria Puig and Javier Loscertales, "Las estrategias de crecimiento de la industria química alemana en España, 1880-1936: exportación e inversión directa," *Revista de Historia Económica* 19, no. 2 (2001): 345-82.

²⁰ Deutsche Handelskammer für Spanien Madrid [hereafter, DHK Archives MAD], minutes of the board of directors, annual reports, and monthly bulletins.

real, the economic relations between Germany and Spain changed during the interwar period. The general framework was provided by a bilateral commercial treaty signed in 1926 that was not only very difficult to negotiate, but that also did not satisfy those most involved in German-Spanish trade.

An obvious international postwar change was the increase of German direct investment in Spain. Economic nationalism, along with the promising development of the Spanish economy in the 1910s and 1920s, called for foreign capital and knowledge. For this reason, IG Farben, Continental, Schering, Merck, Boehringer, and Linde became major foreign investors in Spain during the 1920s and 1930s, either in association with local firms or as fully German firms with prominent (and useful) Spaniards on their boards. Insurance and trading firms also proliferated. These activities occurred, however, for reasons other than those stated by international investment theory. Many enterprising Germans fled their country during the Weimar Republic in search of a better economic future. Spain, far less developed than Germany, appealed to many who, by firmly establishing themselves in their new country, joined and strengthened the existing German-Spanish business circles.

Many Germans as well as Spaniards came to play an important role in the defense of German economic interests in Spain throughout the troubled period from 1936 to 1958. On the eve of the Spanish Civil War (1936-1939), the Germans comprised the second largest foreign community (after the French), with around 7,000 people, most of them in Barcelona and Madrid. Predominantly connected to commercial endeavors, the German community had built a broad educational and cultural network across Spain.²¹

Did German capital and technology also bring managerial institutions and styles? Our own research about the chemical industry leaves no doubt.²² Until the outbreak of the Spanish Civil War, German headquarters fully controlled their German subsidiaries. Top managers, who were usually German with either scientific or commercial backgrounds, stayed in Spain for long periods (if not indefinitely). The technical director was the key person. As Spanish economic nationalism intensified (favoring the establishment of joint ventures and all sorts of partnerships), a division of labor occurred between “politicians” (top managers, usually Spanish lawyers, specialized in dealing with the government) and “technicians” (German managers who took care of the commercial and

²¹ Jean-Marc Delaunay, “La liquidation des avoirs allemands en Espagne (1945-1961),” in *España, Francia y la Comunidad Europea* (Madrid, 1989), 219-37.

²² Núria Puig, “Auslandsinvestitionen ohne Technologietransfer? Die deutsche Chemieindustrie in Spanien (1897-1965),” in *Technologietransfer aus der deutschen Chemieindustrie, c.1920-c.1960*, ed. Rolf Petri (Berlin, 2004), 291-322.

industrial side of the business, including human resources, and who were in constant touch with German headquarters).

Our reconstruction of the official trade between these two countries reveals that German exports to Spain intensified in the 1880s, when 10 percent of the value of Spain's total imports came from imperial Germany. As shown in Figures 2a and 2b, the United States and Britain had similar positions, but remained behind France (25-30 percent). The German market, however, was far less important for Spain than the markets of its other large trade partners; half of Spain's exports went to the French and British markets, whereas only 1.5 percent reached Germany. These trade flows were unchanged, in relative terms, until the Great War; in 1912, Germany absorbed 7 percent of Spain's exports. After the First World War, from 1920 onward, Germany regained its traditional position in Spanish international trade. In 1934, imports and exports amounted to 13.23 and 10.10 percent, respectively.

German statistics reveal that the Spanish market was a secondary foreign market for German exports. The agrarian nature of the Spanish economy and the industrial nature of the German economy determined the exchanges. Until the outbreak of the Spanish Civil War and the implementation of Nazi Germany's four-year-plan, in 1936, five products dominated Spanish exports: fruits, sulfur, iron bar, wine, and leather; over time, fruits rose and minerals fell. As for German exports, chemical and pharmaceutical products, iron manufactures, machinery, electro-technical products, and all kinds of motor vehicles dominated and tended to grow.

The French Model Challenged, 1913-1939

The advent of the second industrial revolution posed many challenges for French international investors. Neither their technological and organizational capabilities nor their economic diplomats seemed adequate to defend France's position from the emerging world industrial leaders, particularly Germany and the United States. Nor did rising economic nationalism help with adapting a well-established model of international investment to the new rules of the game. Thus, the disorientation and, in some cases, the decline of French international entrepreneurship became especially visible during the interwar period. In Spain, French capital continued to dance to the banks' tune. However, French banking had a difficult time after the end of the nineteenth century. *Crédit Mobilier*, Péreire's bank, went bankrupt in France. In Spain, it lasted longer than elsewhere, but drastic restructuring did not prevent the bank's eventual extinction. Unfulfilled expectations and inflexible Spanish partners pulled down the Spanish subsidiary of Paribas, which progressively gave up its business.²³

²³ José Luis García Ruiz, "La etapa francesa de un banco español: Banesto, 1902-1927," in *Actas del VII Congreso de Historia Económica* (Santiago de

French weakness and Spanish ambitions within an increasingly nationalist environment can help us understand the advances made by Spanish banks and industrial firms in the interwar years. The result was a slow though definite withdrawal of French capital from most of the banks, railways, mining, and utilities companies that the French had controlled since the mid-nineteenth century. However, France had not lost its economic influence in Spain. On the eve of the Spanish Civil War, France kept its dominant position in Spain's FDI and foreign trade, and the French comprised Spain's largest foreign community (14,000 people). Moreover, a few conspicuous firms remained under the control of their French founders: Peñarroya (mining) and MZA (railways) (both owned by the Rothschild family), Saint-Gobain (glass), and some insurance companies (L'Abeille, la Paternelle, le Phénix, among others).²⁴

These firms were the heirs of an investment model that had emerged in the nineteenth century; they coexisted with new ventures led by firms of the second industrial revolution that were independent from investment banks. Indeed, the interwar period provides numerous examples of French attempts to lead the Spanish second industrial revolution, in open competition with American and German firms. Here we find failures as well as successes. The car manufacturer Renault established a commercial firm that was unable to compete with American models. Yet Gillet-Rhône Poulenc founded a successful joint venture with a Catalan partner, Sociedad Anónima de Fibras Artificiales (SAFA), to manufacture rayon in 1922. In 1931 Michelin set up a tire factory in northern Spain and introduced scientific management.²⁵ Several French firms were among the first firms created around the recently discovered potash mines of Catalonia: Minera-Fodina (1914), Société des Mines de Potasse de Suria (1920), and Potasses Ibériques (1932). Finally, the Sociedad Ibérica de Construcciones Eléctricas (SICE) was a successful French joint venture in the electrical equipment market.²⁶

However, French firms or partners rarely played a role within the international cartels that ruled most of the scientific-based industries of the time. The Germans controlled the so-called French-German Potash Union. IG Farben imposed itself on Kuhlmann. Moreover, since 1931 SICE had been subordinate to Geathom, the result of an international agreement among AEG, Thomson-Houston, and General Electric in which

Compostela, 2005); Eric Bussière, *Paribas: l'Europe et le monde: 1872-1992* (Antwerp, 1992).

²⁴ López Morell and Miguel-Ángel, *La Casa Rotschild en España*.

²⁵ Albert Broder, "Le commerce France-Espagne nationaliste pendant la guerre civile," in *Españoles y Franceses en la Primera Mitad del Siglo XX* (Madrid, 1986), 345-57.

²⁶ Fondo Histórico del Banco Urquijo Madrid [hereafter, FBU], SICE Annual Reports (1923-1936).

SICE played only a secondary role.²⁷ It seems, therefore, that, whereas those who had led the first Spanish industrial revolution were withdrawing, the pioneers of the second industrial revolution were struggling to consolidate.

We need to explain two parallel phenomena. Economics can account for the retreat of French investment from Spain. The Spanish market was narrow and many of the expectations created around the potential development of the Spanish economy proved unrealistic. But politics also matter. The cozy arrangements made by French capitalists and Spanish bureaucrats and politicians ended during the turbulent interwar years. General Primo de Rivera was in power from 1923 through 1930, followed by a republican regime from 1931 until the outbreak of the war. French politics were even more relevant.²⁸ Although we are still researching this, it is apparent that France's diplomats were ineffective in helping their international firms. Economic diplomacy was essential in an era of industrial diplomacy and international cartels.

There was a sharp contrast between France and Germany. Leon Cocagne, president of the French Chamber of Commerce in Spain (FCCS), usually complained about the scarce protection provided by French diplomacy and the overall lack of stability. For these reasons, business culture, in our view, holds even more explicative power. French investment banks, traditionally dynamic and adventurous, grew increasingly conservative and risk-averse as a consequence of the 1890s crisis. In the aftermath of the Great War, they focused on safe business.²⁹ Their behavior in Spain was no exception. Our research reveals that French firms showed little flexibility and had trouble accepting the changes occurring in the world economy following the spread of the second industrial revolution. The FCCS, for instance, insistently encouraged its members to improve their commercial skills and to adapt to the new market's demands, as did German and American manufacturers.³⁰

French technological weakness was another source of worry for the institution that had been pivotal in the history of French direct investment in Spain since 1882. This is the negative side of what Geoffrey Jones calls the stickiness of knowledge.³¹ Did practice inertia create organizational rigidity? Having dominated the Spanish market for eighty years, French firms seemed to have difficulty changing their visions and habits regarding their "California." Interestingly, in many of the firms where the French

²⁷ FBU, SICE (1931).

²⁸ Broder, *Le rôle des intérêts étrangers.*"

²⁹ Cameron, *Francia y el desarrollo económico de Europa.*

³⁰ French Chamber of Commerce in Spain Archives [hereafter, FCCSA], *Bulletin*, 1919-1936.

³¹ Geoffrey Jones, *Multinationals and Global Capitalism: From the Nineteenth to the Twenty-First Century* (Oxford, U.K., 2005).

lost control, the Spanish owners maintained French business perspectives (particularly risk aversion) and management habits (a powerful director-general).³²

In 1936, the outbreak of the Spanish Civil War awakened French capitalists from their sleep. They displayed their traditional ability to deal with unstable political frameworks. Moreover, they were successful. Most of the remaining French firms were located in areas controlled by the democratic republican government. Here, the fury of collectivization (in many cases conducted by anarchist groups) replaced the basic distrust regarding foreign capital shown by the republican regime. However, General Franco's rebel nationalists did not trust foreign capitalists, either. In France, the Popular Front won the elections. French firms bitterly complained about the hopeless situation created by the French government's non-interference policy resulting from the British-French Non-Intervention Treaty. French capitalists felt compelled to defend themselves against collectivization and other aggressions. The specter of the Russian Revolution, when two-thirds of French FDI was lost, returned. The Spanish embassy in Paris became one of their targets.³³ However, these protests had no effect. Many sought alliances with the rebel faction. Our research shows that French capitalists made over thirty offerings in less than two years and that firms such as the Société des Potasses Ibériques helped finance the military putsch.³⁴ The literature provides other examples of collaboration, with Michelin also playing a leading role.³⁵

Although we need more research, there is evidence that the Spanish Civil War and the two world wars gave rise to a new era of economic understanding between the Spanish authoritarian regime and French business people, based not on ideology but on pragmatism. In fact, the Paris-based French-Spanish Chamber of Commerce (FSCC), created in 1938 by senior managers of Spanish subsidiaries, would increasingly overshadow the Madrid-based French Chamber of Commerce. French capitalists seemed to respond to their troubles with collective action. The Consortium Industriel et Commercial pour l'Étranger, led by the former French ambassador in Madrid (Auguste de Perreti), and an association promoted by the Neuflyze Bank are further examples of this institutional frenzy, which had interesting results³⁶.

In Spain, as elsewhere, the overall influence of French capital and entrepreneurship declined between the two world wars, while Spanish

³² Rafael Castro, "El agotamiento de un modelo de inversión internacional: el capital francés en la España de entreguerras" (M.A. thesis, Madrid, 2005).

³³ Archivo General de la Administración Alcalá de Henares [hereafter, AGA], Ministerio de Asuntos Exteriores [hereafter, MAE], (10)96 54/11256.

³⁴ AGA, MAE, (10)96 54/11052.

³⁵ Broder, "Le commerce France-Espagne nationaliste pendant la guerre civile."

³⁶ AGA, MAE (10)99 54/51.601-602, box 3.

indigenous capital and German and American capital and expertise became the main sources of dynamism in the Spanish economy. Two successive wars interrupted the development of the Spanish second industrial revolution. Used to coming to terms with a chronically unstable political framework and a developing economy, French and German businesspeople would now face far greater challenges in their host country, even as the dramatic events in their home countries added difficulties as well as opportunities.

The Business of War: The Rise of German Influence in the Spanish Economy, 1936-1945

The economic influence of Germany reached its climax between the outbreak of the Spanish Civil War and the military defeat of Nazi Germany. Understandably, much of the existing research on German-Spanish relations deals with this period.³⁷ The economic influence became particularly noticeable in three areas: the control of foreign trade, the development of an autonomous productive basis in Spain, and the accumulation of war debts. It was an exceptional period, marked by the intervention of German governments, the rise of new business opportunities and personalities, and the disturbance of German private interests abroad. From 1936, Spain became part of Hermann Göring's war-preparation plans. Spain's main task was to provide Germany with raw materials, minerals in particular.

Two ad hoc bodies controlled around 80 percent of the German-Spanish trade: Hisma (Compañía Hispano-Marroquí de Transportes Limitada) and Rowak (Rohstoff-Waren Kompensation Handelgesellschaft GmbH, under the aegis of the German Ministry of Economy). Johannes Bernhardt, a relatively new member of the German business community in Spain, was in charge.³⁸ A self-made tradesman, with experience in Germany and Tangier, Bernhardt did not always get on well with the German bureaucracy; he was a rival of many well-established German trades people in Spain. Although the topic needs systematic research, it seems that most German business people accommodated to the new rules of the game. Most of the main characters of our story, for instance, joined the NSDAP (Nationalsozialistische Deutsche Arbeiterpartei) between 1933 and 1944.

Among those who tried to keep their businesses away from Bernhardt's influence was Federico Lipperheide. Having fled Weimar Germany in 1921, he set up in Bilbao, where he created, along with some conspicuous

³⁷ Ángel Viñas, *La Alemania nazi y el 18 de Julio* (Madrid, 1977); Viñas, *Franco, Hitler y el estallido de la guerra civil: Antecedentes y consecuencias* (Madrid, 2001); Rafael García Pérez, *Franquismo y Tercer Reich: Las relaciones económicas hispano-alemanas durante la Segunda Guerra Mundial* (Madrid, 1994).

³⁸ Viñas, *Franco, Hitler y el estallido de la guerra civil*, 308-12.

members of the local industrial elite, Somimet (Sociedad Bilbaína de Minerales y Metales SA), a mineral trading company.³⁹ Like most German business people in Spain, Lipperheide moved to Seville with the outbreak of the Spanish Civil War to continue his activity with the assistance of a London office. Back in Bilbao beginning in 1939, Somimet greatly expanded his production to meet Germany's increasing demand for minerals. Lipperheide (a member of the NSDAP since 1934), however, was accused by Bernhardt of working for the Allies. They finally reached an agreement under which Lipperheide was able to keep his business going with his private German partners. It was with them that he created the second-largest chemical group in postwar Spain—making him one of the Allies' targets after 1945.⁴⁰ It is reasonable to think that other members of the so-called German colony followed Lipperheide's survival strategy.

The most effective way to ensure the regular delivery of Spanish raw materials to Nazi Germany was to create a productive base. The Germans expected to finance this project with Spain's accumulated debt from 1936-1939, but they had to face Franco's economic nationalism, which directly concerned the mining business. Hisma was thus transformed under Bernhardt's direction into a diversified Spanish holding, Sofindus (Sociedad Financiera e Industrial Limitada), actually linked to Rowak and the German Ministry of Economy. Yet Sofindus ran into debt and experienced losses until 1941. In the course of the Second World War, the original aim of controlling the entire German-Spanish trade was abandoned, and Sofindus focused on the extraction and export of war minerals (such as wolfram) and war smuggling. The Spanish government dismantled Sofindus in agreement with the Allies in 1948, once Spain joined the Bretton Woods agreements.⁴¹ Spain's war debt (480 million German Marks according to German estimates) led to a diplomatic conflict between the two countries that lasted, along with the expropriation process, until 1958.

Overall, the economic relationship between Nazi Germany and Spain intensified during the Second World War, as the available official statistics (German for 1936-1939, Spanish for 1939-1945) and the reconstructions offered by various authors document.⁴² Not only did Germany become

³⁹ Núria Puig, "Federico, José, Francisco y Enrique Lipperheide Henke," in *Cien empresarios vascos*, ed. Eugenio Torres (Madrid, 2007): forthcoming.

⁴⁰ National Archives and Records Administration Washington [hereafter, NARA], RG226/E19/B3/F16/R165726.

⁴¹ Carlos Collado Seidel, *Angst vor dem "Vierten Reich": Die alliierten und die Ausschaltung des deutschen Einflusses in Spanien 1944-1958* (Paderborn, 2001).

⁴² Viñas, *La Alemania nazi y el 18 de Julio*; Pérez, *Franquismo y Tercer Reich*; Christian Leitz, *Economic Relations between Nazi Germany and Franco's Spain, 1936-1945* (Oxford, U.K., 1996); Pablo Martín Aceña et al., *Los movimientos de oro en España durante la Segunda Guerra Mundial* (Madrid, 2001).

Spain's largest provider of industrial goods during the wars (40 percent of industrial machinery and chemicals in 1937-1938 and 30-40 percent in 1941-1944), but Spain also supported Germany's war effort by exporting food, minerals, and other raw materials to the Reich (30-40 percent of Spanish official exports went to Germany from 1941 to 1944). For the first time Spain's trade balance was favorable.⁴³

Our own research shows that German-Spanish private businesses grew considerably during the wars (see Appendix 1).⁴⁴ In 1945, German investment was highly concentrated in four activities: chemicals, electro-technics, banking, and insurance. The chemical industry, largely dominated by IG Farben, was by far the most important. Some chemical firms (Behring, Inquiresa) were created during the war years, but growth occurred primarily because most of the already established companies grew, diversified, and, most important, started to manufacture in Spain. This activity was possible because of the extraordinarily high profits made between 1936 and 1939. We can say the same for electro-technics. While Telefunken was a predictable outcome of the war, AEG bought several Spanish firms and became a diversified manufacturing group. Siemens' business also grew considerably. The way these firms faced Spain's nationalist drive after 1939 (a law passed that year restricted every firm's foreign capital and management to 25 percent) was very similar: they found the right local partners to appear to become a Spanish firm, yet Germans remained in control. Note that those German individuals who could prove their activity and residence in Spain before 1936 were able to apply for Spanish nationality and thus act as Spanish citizens. A good example is Fernando Birk, referred to by the Allies as IG's man in Spain.⁴⁵ Born in Germany, Birk (an NSDAP member only since 1940) lived in Barcelona beginning in 1926 as an IG employee and had made a brilliant career within the German chemical conglomerate after 1936 as the top manager of the IG Spanish branch. He defended himself (and IG's assets and interests) well against the Allies' accusations, kept the German Chamber of Commerce going from 1945 to 1950 (the only active German Chamber in the postwar period), became the de facto ambassador of his occupied country, and was the master of ceremonies of the comeback of the German chemical industry from 1955 until his retirement in 1967.

⁴³ UN Economic Commission for Europe, *Statistisches Jahrbuch des Deutschen Reiches*.

⁴⁴ Núria Puig, *Bayer, Cepsa, Puig, Repsol, Schering y La Seda: Constructores de la química española* (Madrid, 2003), and Puig, "Auslandsinvestitionen ohne Technologietransfer?"; Puig and Álvaro, "¿Misión imposible? La expropiación de los bienes alemanes en España."

⁴⁵ NARA, RG226/E19/B203/R13978; B281/R19029.

FIGURE 4



Federico Lipperheide and his brothers José, Francisco, and Enrique in Bilbao in the late 1960s.

One of Birk's most uncomfortable rivals during and after the war was Lipperheide. He took advantage of the war to obtain IG Farben licenses that were out of Birk's reach, allowing him to create a chemical group between 1939 and 1945. That Lipperheide (a Spanish citizen since 1939) played his cards well with Spain's new rulers and industrialists is shown by the fact that most of his companies (Unquinesa, Sefanitro, Hidro-Nitro, Nitratos de Castilla, Agra) were considered "national." The Instituto Nacional de Industria (INI), a public holding inspired and run mainly by military engineers to accelerate Spain's industrialization and achieve the highest degree of self-sufficiency, was also keen to get access to German expertise. It was not so much the Spanish military's traditional fondness for Germany, but rather the opportunities created by the war that provided German technological assistance to the most ambitious (and expensive) firms of the public holding.

What were the effects of the extraordinary events that occurred between 1936 and 1945 on the daily management of Spanish subsidiaries? For obvious reasons, the Germans had to give local managers more freedom, whether they were German or not. As commercial activity gave way to more manufacturing activity, there was the need to hire new people and make decisions in tune with the new rules of the game. Overall, however, management remained the same. Most of the technical departments, where Spaniards had little to say, kept their people and their power. In some cases, the division of labor between "politicians" and "technicians" became even more pronounced. In others, the "technicians" took over. From 1933 many German firms had saved some of their

employees who were not Arian enough by sending them overseas. The Spanish subsidiaries of AEG, Siemens, and Schering provide examples of this practice.

The Expropriation and Recovery of German Private Assets in Spain, 1945-1975

The process of identification, expropriation, and nationalization of German private assets that took place between 1948 and 1952 was a heavy burden on the traditionally good diplomatic relations between Germany and Spain.⁴⁶ Even though Spain accepted the Bretton Woods agreements as early as 1945, they did not pass the law that regulated the expropriation of foreign assets until April 23, 1948. On May 10, 1948 Spain, the United States, the United Kingdom, and France signed an agreement on the liquidation of German assets in Spain, and on July 10 of the same year an ad hoc commission (Comisión de Expropiación de Bienes Extranjeros, CEBE) was created within the Spanish Ministry of Foreign Affairs. In this way Spain, along with Portugal, Sweden, and Switzerland, became part of the Allies' Safe Haven Program. Note that the program, aimed at curtailing the defeated country's economic potential, embraced all kinds of German foreign properties. It was not until the governments of the Federal Republic of Germany (FRG) and Spain signed an agreement on April 8, 1958, that normalization began.

Time worked against the Allies. Most of the German owners and their Spanish partners managed to hide, either totally or partially, the true proprietary structure of the firms involved and to find ways to keep them going and to reach agreements with the German matrixes. According to Carlos Seidel and Pablo Aceña, it was Spanish diplomats, lead by CEBE's president Emilio de Navasqués, who did their best to avoid the dismantling of the strategic industries dependent on German capital and technology.⁴⁷ Thus, Navasqués' department managed to exclude key people such as Bernhardt, Birk, and Lipperheide from the Allies' black list. Even more relevant was CEBE's determination to keep the expropriated firms in the hands of their former managers and linked to their former matrixes. They often referred to this as maintaining the status quo: ensuring the technical and organizational continuity of the firms.

For those in charge of the Spanish Safe Haven Program, the outcome of the process was rather disappointing.⁴⁸ Only 177 (27 percent) out of the

⁴⁶ Delaunay, "La liquidation des avoirs allemands en Espagne"; Petra-Maria Weber, *Spanische Deutschlandpolitik 1945-1958* (Saabrücken, 1992); Seidel, *Angst vor dem "Vierten Reich"*; Carlos Sanz Díaz, *España y la República Federal de Alemania (1949-1966): Política, economía y emigración, entre la guerra fría y la disensión*, (Madrid, 2006).

⁴⁷ Seidel, *Angst vor dem "Vierten Reich"*; Aceña, *Los movimientos de oro*.

⁴⁸ Puig and Álvaro, "¿Misión imposible? La expropiación de los bienes alemanes en España."

700 million pesetas estimated by the Allies as the assets' value were obtained. Appendix 1 shows that the most important beneficiaries of the public auction were the former managers, on the one side, and the Spanish group Urquijo, on the other. It is true that Urquijo, determined to create a large chemical and pharmaceutical group with the technical and commercial assistance of the German firms, failed to get FNCE (Fabricación Nacional de Colorantes y Explosivos) and Merck, but on the whole they had excellent results, defeating competitors as prominent as the public holding INI and multinational firms backed by the Allies.

The Urquijo, an industrial bank historically linked to the Rothschilds, excelled at hiring brilliant and well-connected people. José Luis Gallego, for instance, was a physician educated at the Madrid German School. Having managed Bayer's Spanish subsidiary in the 1930s, he dealt skillfully with the Spanish and Allied administrations during the expropriation process. Immediately after the end of the auction, his brother Antonio, a prestigious professor of physiology at the University of Madrid, designed and directed the Instituto Farmacológico Español with the financial support of Bayer and Schering and the technical assistance of the American multinational Merck. The banker and entrepreneur José María Gonzalo, whose brother was Spain's first ambassador to the Federal Republic of Germany, became Siemens' man in Spain after 1950. The second ambassador was the marquis of Bolarque, director-general of the Urquijo Bank. Another interesting individual working for the Urquijo was Austrian aristocrat Franz Josef Seefried, who was the link between Schering's Berlin headquarters and its Spanish subsidiary.

The effects of the expropriation were limited. In tune with the autarkic drive of the first dictatorial governments, both the personnel and the inputs of the German firms became more Spanish, but control remained in the hands of the German matrixes and their trusted local partners. Our in-depth analysis of these firms reveals that, with few exceptions, business boomed during the 1950s and 1960s and the relationship between Spain and the FRG was smooth.⁴⁹ When the two governments signed the 1958 agreement, liberalization of the Spanish economy had just begun, providing a framework for the progressive comeback of German capital. Its contribution to the so-called Spanish miracle would indeed be remarkable. Thus, the leaders of the FRG, whose involvement in the expropriation process came late and was rather fruitless in respect to the business community, succeeded in improving general conditions for German direct investment in Spain after 1959. Most of those efforts focused on the defense of German patents and trademarks, along with some public

⁴⁹ Núria Puig, *Bayer, Cepsa, Puig, Repsol, Schering y La Seda*, and "Auslandsinvestitionen ohne Technologietransfer?"; Puig and Álvaro, "¿Misión imposible? La expropiación de los bienes alemanes en España."

properties.⁵⁰ Otherwise, private firms were the main actors in this exciting period in German-Spanish economic relations.

The overlapping of the German and Spanish economic miracles probably explains the otherwise remarkable lack of interest that German firms had in getting their shares back or in receiving at least some compensation. According to our exhaustive research, most of the firms concentrated their efforts on opening the door to a full comeback. The Chamber of Commerce, which had played a relevant role in giving support to a “demoralized” German community during the postwar period, now eagerly defended Germany’s economic interests in Spain.⁵¹

The new and more relaxed relationship between Germany and Spain paved the way for new personal connections. This was the case for José Solís, Franco’s socially minded Minister of Labor, who was on the best terms with Fritz Berg of the German employers’ group BDI (Bundesverband der Deutschen Industrie) and who was able to sit on a bilateral commission from 1956 to 1958.⁵² Solís managed to allocate a substantial part of Germany’s technical assistance to his pet project of vocational training.

Diplomacy became relevant again during the 1960s and 1970s, once the FRG and Spain had recovered their moral stance. While Spain defended Germany’s reunification in international forums, the FRG advocated Spain’s membership into the European Economic Community. The highlights of this process were the signing of the first commercial agreement since 1926 in June 1960, Ludwig Erhard’s visit to Spain in 1961, and the subsequent economic cooperation agreement in May 1961. Bonn’s guidelines for its diplomats were clear: they were to deliver technical assistance in exchange for the liberalization of FDI and for participation in large projects (nuclear energy, Volkswagen) more or less related to Spain’s development plans.⁵³

Figures 2 and 5, Table 2b, and Appendix 1 show that, however uncoordinated, those efforts bore fruit. In 1975, the FRG had become Spain’s largest direct investor. The dramatic events of the previous decades had not changed the German pattern of investment: Germany’s strength remained focused on the second industrial revolution (chemicals, electro-technics, and machinery). Yet Germany’s hegemony belonged to the past. Except for the former IG Farben, AEG, and Siemens, German firms were now competing hard with European and American rivals.

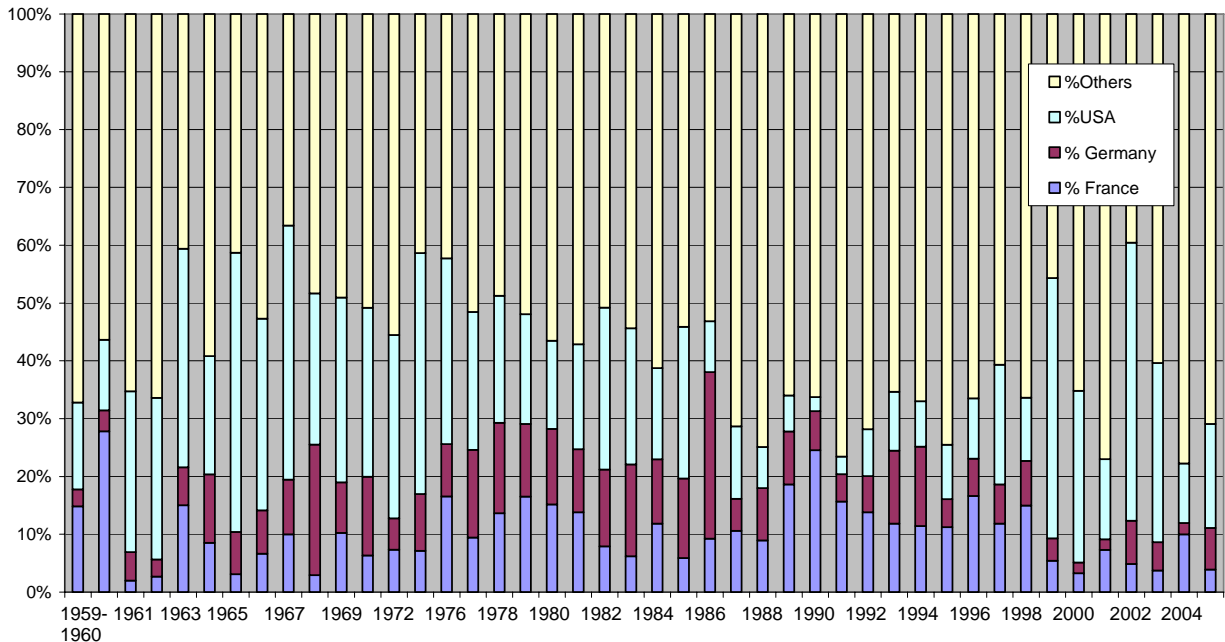
⁵⁰ MAE, R-4316/4, R-4209/7, R-7730, R-7737; Politisches Archiv des Auswärtiges Amts Berlin [hereafter, AA], B26-180, B60-416.

⁵¹ DHK, minutes of the board of directors 1949 onward.

⁵² AA, B60-801a.

⁵³ AA, B-26/180, 388, 453.

FIGURE 5
French, German, and American FDI Flows into Spain, 1959-2005
(%)



Sources: Juan Muñoz, Santiago Roldán, and Ángel Serrano, *La internacionalización del capital en España* (Madrid, 1978); Celedonio Barquero, *Inversiones extranjeras: la realidad española* (Barcelona: Escuela de Administración de Empresas de Barcelona, 1971); R. Velasco, “Internacionalización de la industria española: estrategias y políticas,” *Economía Industrial* 287 (1992):41-51; J. M. Maté, “La inversión directa española en el exterior,” *Papeles de Economía Española* 66 (1966): 220-34; Subdirección general de Estudios en el Exterior “Una década de Inversión Española en el exterior, 1991-2001,” *Boletín ICE Económico: Información Comercial Española* 2734 (2002); and Ministerio de Industria, Turismo y Comercio, “Registro de Inversiones Extranjeras” (1993-2005, <http://datainvex.comercio.es/principalinvex.aspx>).

German “old” matrixes, however, had succeeded in getting full control and, eventually, ownership of their former subsidiaries. Some German “new” firms succeeded in setting up by acquiring local companies. Bilateral trade continued to reflect Spain’s agrarian economy and Germany’s industrial profile. Had the expropriation experience changed management ideas and practices? No, not really. Because Spain (and Spanish management) were rapidly developing, and German multinationals were expanding across the world, there was a tendency to hire (and trust) more Spanish managers, but decisions were made by those who owned the technology. Spanish subsidiaries continued to adjust their technical and commercial departments, which in turn relied heavily on their German counterparts.

TABLE 2a
Top 19 French Firms, 1972, Relative Position in Spanish Market

Firm	Sector	“Spanish Birth”	General Ranking
F.A.S.A Renault	Automobiles	1954	11
S.A.F.E. Michelin	Tires	1931	28
Citröen Hispania	Automobiles	1957	45
General Eléctrica Española	Electrical Equipment	1901	47
Aluminio de Galicia	Iron and Steel	1962	68
S.A. Fibras Artificiales	Textiles	1922	92
Danone S.A.	Food processing	1929	108
Cristalería Española	Glass	1905	114
SMM Peñarroya	Mining	1881	180
Massanés y Grau	Food processing	1958	190
Resinas Poliésteres S.A.	Plastics	1962	192
S.E. Oxígeno		1909	195
Vidrieras de Castilla	Glass	1920	207
Compañía Andaluza de Minas	Mining	1904	315
Vidriera Vilella, S.A.	Glass	1924	374
Cía de Fab. de Contadores y Mat. Ind. S.A.	Electrical Equipment	n.f	411
Ugiquímica, S.A.	Chemicals	1950s	488
SICE	Electric Equipment	1924	496
Grafitos Eléctricos del Noroeste S.A.	Iron and Steel	1950s	552

The growth of the Spanish market made the operation of German subsidiaries more complex than ever, but managers relied on the way businesses had been run for generations: they seemed to identify technological leadership with managerial leadership. Although Spanish firms had to adapt to the Spanish legal framework concerning industrial relations, for instance, those we have researched showed pride in implementing German methods and benefits.

TABLE 2b
Top 19 German Firms, 1972, Relative Position in Spanish Market

Firm	Sector	Spanish "Birth"	General Ranking
Bayer Hispania Comercial	Chemicals	1899	48
Hoechst Ibérica S.A.	Chemicals	1911	50
AEG Ibérica de Electricidad	Electrical Equipment	1901	61
Siemens S.A.	Electrical Equipment	1910	77
Basf Española, S.A.	Chemicals	1878	101
Henkel Ibérica	Chemicals	1954	130
Mercedes Benz	Automobiles	1972	178
Industrias Químicas Asociadas	Chemicals	1961	201
Isodel-Sprecher S.A.	Electrical Equipment		217
Papeleras del Guadalquivir	Paper		260
TACA Construcciones Mecánicas (Mann)	Equipment goods	1964	286
Fabricación Nacional de Colorantes	Chemicals	1922	287
Telefunken Ibérica S.A.	Electrical Equipment	1940	330
Compañía General de Electricidad	Electrical Equipment	1891	345
La Química Comercial y Farmacéutica	Pharmaceuticals	1899	352
Braun Española	Electrical Equipment	1962	423
OSRAM	Electrical Equipment	1914	468
C.H. Boehringer Sohn Ingelheim, S.A.E.	Pharmaceuticals	1933	529
Derivados del Flúor	Chemicals	1960s	563

Sources: Esther M. Sánchez Sánchez, *Rumbo al sur: Francia y la España del desarrollo, 1958-1969* (Madrid, 2006); Fomento De La Producción, *Las 700 mayores empresas industriales de España* (Barcelona, 1972).

The Search for a New Investment Model: French Capital in Spain, 1945-1975

The economic understanding that emerged between French capitalists and the Spanish authoritarian regime during the Spanish Civil and world wars allowed French firms to survive the extraordinarily adverse postwar period. General Franco and his military advisers implemented an irrational self-sufficiency plan that was to damage the Spanish economy until the mid 1950s. Spain's foreign trade was one of the most distorted sectors. Furthermore, politics excluded Spain from postwar international diplomacy and the benefits of the Marshall Plan. Democratic France became one of the strongest supporters of dictatorial Spain's ostracism. Officially, French business people could expect little from their government regarding their Spanish interests; unofficially, however, French firms managed to maintain close relationships with their Spanish partners.

The most visible institutions in postwar French-Spanish economic relations were the Conseil National du Patronat Français (CNPFF) and the Madrid Chamber of Commerce.⁵⁴ As during the period from 1936 to 1945, bilateral trade was a priority. However, when the United States put Spain under its patronage after the outbreak of the Korean War, French entrepreneurs raised their expectations. The friendly business atmosphere clearly helped French firms to maintain their Spanish positions as well as to identify and seize new business opportunities, though there were limits; the expropriation of German business assets in Spain did not benefit French firms.

TABLE 3
Main Sources and Geographical Distribution of FDI in Spain, 1966-1971
(millions of pesetas and %)

Country	Spain		Catalonia		Madrid		Basque Country	
	Volume	%	Volume	%	Volume	%	Volume	%
France	3.323,93	11.74	486,67	5.40	428,30	6.30	64.25	3.42
Germany	3.389,32	11.97	2.101,62	23.30	672,70	9.88	98.60	5.22
U.K.	1.747,26	6.17	273,00	3.03	664,42	9.77	42.30	2.24
Switzerland	3.581,76	12.65	1.642,90	18.22	474,41	6.97	907.40	48.04
U.S.A.	7.899,13	27.90	1.113,02	12.34	3.040,06	44.69	672.78	35.61
Total	28.314,96	70.43	901.643,00	62.29	6.803,11	77.61	1,889.03	94.53

Source: Juan Muñoz, Santiago Roldán, and Ángel Serrano, *La internacionalización del capital en España* (Madrid, 1978), 134.

Competition was fierce. In 1953, the United States and Spain signed a treaty making Spain a military ally and the object of economic and technical aid. Modest as it might seem, this assistance marked a turning point in Spain's economic history.⁵⁵ Spain's role in America's European military plans required a dramatic modernization of the Spanish army and infrastructure that indigenous firms could not undertake. The golden era of American business in Spain had begun, as shown in Figure 5 and Table 3. However, European firms quickly exploited the situation by courting the American and Spanish administrations. The strategy followed by French firms is interesting. Whereas the CNPF did its best to obtain as much information as possible about the allocation of American aid,

⁵⁴ Esther M. Sánchez Sánchez, "Redes empresariales francesas en la España franquista: el Conseil National du Patronat Français, 1946-1966," in *Actas del VII Congreso de Historia Económica* (Santiago de Compostela, 2005); Cámara de Comercio de Madrid [hereafter, CCM] Archives.

⁵⁵ Núria Puig and Adoración Alvaro, "La guerra fría y los empresarios españoles: La articulación de los intereses económicos de Estados Unidos en España, 1950-1975," *Revista de Historia Económica* 22, no. 2 (2004): 387-424.

individual firms focused on the all-important state-owned sector: railways (Spanish railway companies became part of the state-owned company RENFE—Red Nacional de los Ferrocarriles Española in the early 1940s) and the industrial holding INI.⁵⁶

In a way, French firms were trying to take advantage of their accumulated technical and political abilities. The consolidation of an international market for technology was favorable to the marketing of French engineering, and the familiar, technology-craving Spanish market seemed ideal. In 1953, France and Spain agreed to a credit of 1,550 million francs.⁵⁷ Expensive in comparative terms, French capital was competitive in the traditional French investment areas: railways and mining.⁵⁸ In this way, French engineering (and suppliers) got access to RENFE and INI, two important actors in Franco's Spain and the recipients of almost two-thirds of the total credit.

Business diplomacy did undoubtedly play a role in opening this particular door to future French international investment. The individuals in charge of the French CNPF and the Madrid Chamber of Commerce understood each other. However, classical diplomacy also played a key role. How could one otherwise explain the successful establishment of the French national champion Renault in Valladolid in the early 1950s? Even though the comeback of the car manufacturer took place in the form of a joint venture (FASA-Renault), the French government's commitment and pressure were essential.⁵⁹ Renault became the symbol of France's ability to conquer the Spanish market.

L'Oréal, too, chose a joint venture to enter the Spanish market as early as 1950 with Procasa. The story of this firm, with political heavyweights on its board, is both thrilling and confusing, and provides some clues about the diversity of strategies displayed by French firms after the second postwar. Not every venture was so friendly, however. One of the icons of French nineteenth-century investment, Peñarroya (a Rothschild company), was involved in bitter disputes with the state-owned holding INI, which was eager to nationalize it.⁶⁰

American assistance, in addition to the resounding failure of the autarkic project, paved the way for the progressive liberalization of the Spanish economy; 1959 was a significant year for French-Spanish business. In Spain, the Stabilization Plan was set in motion, and a new generation of technocrats (many of them Francophiles and even French-

⁵⁶ CCM archives.

⁵⁷ Ibid.

⁵⁸ Ibid.

⁵⁹ Esther M. Sánchez Sánchez, "La implantación industrial de Renault en España: los orígenes de Fasa-Renault, 1950-1970," *Revista de Historia Económica* 22, no. 1 (2004): 147-75.

⁶⁰ Elena San Román, *Ejército e industria: el nacimiento del INI* (Barcelona, 1999).

educated) took charge of the economic ministries. General Charles de Gaulle became president of the French Republic. Notwithstanding the persistence of a dictatorship in Spain, the country became part of the global plan designed by de Gaulle and his advisers to increase France's economic power and political and cultural influence worldwide.⁶¹ The French president was clear: "La France a besoin de commandes extérieures, il serait inadmissible qu'elle s'efface une fois de plus de l'Espagne au bénéfice de l'industrie allemande."⁶² France's economic *Grandeur* meant selling French goods and "know-how" at any cost. For the first time, French firms could believe that the French state was looking out for their foreign interests.

Between 1946 and 1966, France's economic *dirigisme* had created an impressive number of public institutions like COFACE, (Compagnie Française pour l'Assurance du Commerce Extérieur), CNCE (Conseil National du Commerce Extérieur), SOFINTER (Société Française pour le Développement du Commerce International), and COFISE (Compagnie de Financement de Stock à L'Étranger) to support France's economic ambitions. In Spain, their activity increased after 1959, corresponding with an increase in top-level visits. Industrial committees made up of bankers, insurers, and industrialists designed, proposed, and exerted pressure to execute business projects. In contrast to the prewar period, French senior diplomats were always around. Former ambassadors, politicians, and business tycoons were involved in this new stage of French international investment.⁶³

Spain's economic policy helps us explain this new climate. Three development plans (in 1964, 1968, and 1972) followed the liberalization of the Spanish economy that began in 1959; Jean Monnet, Jacques Rueff, and the French Republic, under the inspiration and assistance of many others, designed and implemented the plans.⁶⁴ The originally French idea of creating so-called development poles was particularly appealing to Spanish technocrats. The aim of these poles—locations with no industrial background—was to correct regional economic imbalances. In this way, Spain's Vigo, La Coruña, Valladolid, Sevilla, and Burgos matched France's Limousin or Midi-Pyrénées (Toulouse). It is no coincidence that the most significant French firms were established in those locations: Renault in Valladolid, Citroën in Vigo, Péchiney in La Coruña, and Saint-Gobain in Burgos.

⁶¹ Esther M. Sánchez Sánchez, *Rumbo al sur: Francia y la España del desarrollo, 1958-1969* (Madrid, 2006); Laureano López Rodo, *Memorias* (Barcelona 1971); Jones, *Multinationals and Global Capitalism*.

⁶² AGA, MAE (10)95 54/11602.

⁶³ Sánchez, "Redes empresariales francesas en la España franquista"; CCM Archives.

⁶⁴ Sánchez, *Rumbo al sur*.

France registered its most resounding success in a frontier industry: nuclear energy. In 1972, the Spanish authorities decided to build the power station Vandellós I, south of Barcelona, with French technology, which was more expensive than American technology. According to Esther Sánchez, this was a highly political issue with the personal involvement of de Gaulle.⁶⁵ French *Grandeur* was at stake.

At the same time, the French government encouraged modest firms to explore the Spanish market. French partners signed over 25 percent (700) of the contracts for technical assistance authorized by the Spanish government between 1964 and 1978. This is of particular interest, because technical assistance was an effective vehicle for opening the emerging Spanish market to French small and middle-sized enterprises.

Despite the favorable business climate of the 1960s and 1970s, and the increasing involvement of French economic diplomacy, there were remarkable failures. The most important took place in the promising fields of television (the German PAL—phase-alternating line) format defeated the French alternative SECAM—*sequential couleur avec memoire*) and oil refineries (American Gulf prevailed over Compagnie Française des Pétroles and Union Général des Pétroles).

How did this institutional effort affect French-Spanish trade and investment? In global terms, bilateral trade had grown since 1945, and France remained one of Spain's largest partners (see Figure 2). A relevant change, however, had taken place in the structure of this bilateral trade, reflecting Spain's increasing role as importer and exporter of French manufacturing. While French machinery amounted to 23 percent of imports, Spanish oranges amounted to 25 percent of exports. Figure 5 shows the evolution of French direct investment in Spain, with France in fourth place, far behind the United States, Germany, and Switzerland. Table 2a shows that by 1972 French direct investment in Spain focused on traditional (first industrial revolution) as well as new (second industrial revolution) sectors. Traditional sectors included mining (Peñarroya and Compañía Andaluza de Minas), banking (Crédit Lyonnais, Société Générale), insurance (L'Abeille, Phénix), and glass (Saint-Gobain). New sectors included automobiles (Renault, Citroën, and Michelin), chemicals (Péchiney, L'Oréal), electrical equipment and electronics (Alstom, Thomson-Houston, Cie. Générale d'Electricité, and Schneider), and food and beverages (Prisunic, Danone, Marie Brizard, Evian, and Ricard). The national champions Renault, Saint-Gobain, Citroën, and Péchiney stand out.

⁶⁵ Sánchez, *Rumbo al sur*.

TABLE 4a
Top 19 French Firms, 2004, Relative Position in Spanish Market

Firm	Sector	Spanish "Birth"	General Ranking
Altadis	Tobacco	1887	9
Carrefour S.A	Retailing	1972	11
Renault España	Automobiles	1954	12
<i>Dia</i>	Retailing (discount)	1979	13
Peugeot Citroën España	Automobiles	1957	16
Aceralia	Iron and Steel industry	1998	23
Al Campo	Retailing	1973	30
Saint Gobain Cristalería	Glass	1909	47
Axa Seguros, S.A.	Insurance	1846	49
Valeo España	Automobiles (spare parts)	1950s	73
Grupo Alstom	Electric Equipment	1923	74
Danone, S.A	Dairy Products	1919	76
Total Spain	Petroleum	1964	77
Supermercados Sabeco	Retailing	1966	86
Schneider Electric España	Equipment goods	1923	119
Leroy Merlin	Retailing (specialized)	1991	135
L'Oréal	Beauty	1932	141
Alcatel España	telecommunications	1926	160
Decathlon España	Retailing (specialized)	1992	171
Supermercados Champion	Retailing	1973	179

TABLE 4b
Top 20 German Firms, 2004, Relative Position in Spanish Market

Firm	Sector	Spanish “Birth”	General Ranking
SEAT, S.A	Automobiles	1950/1982	17
Volkswagen Audi España	Automobiles	1972/1982	22
DaimlerChrysler España	Automobiles	1954/1972	28
Mercedes Benz <i>España</i>	Automobiles	1972	32
Siemens, S.A.	Electrical equipment; Telecommunication	1910	36
Basf	Chemicals	1878	50
Grupo ThyssenKrupp	Equipment goods		64
Bayer Hispania	Chemicals	1899	66
Makro Autoservicio Mayorista	Retailing	1972/1998	69
BSH Electrodomésticos S.A:	Electrical Equipment	1980s	70
B.M.W. Ibérica, S.A.	Automobiles		71
Henkel Ibérica, S.A	Chemicals	1954	134
Deutsche Bank	Banks	1904/1957/1994	146
L.I.D.L Supermercados	Retailing	1990s	178
Plus Supermercados, S.A (Tengelmann group)	Retailing	1994	180
Man Vehículos Industriales España	Automobiles (industrial)	1920s/1950s	181
Frape Behr, S.A	Automobiles (spare parts)	1976	198
Adidas (Reebok) Salomon España	Footwear		215
DKV Seguros (ERGO group)	Insurance		302

Sources: Dun and Bradstreet, *Las principales empresas españolas* (Madrid, 2004); Actualidad Económica, “¿Quién manda en las 5.000 mayores empresas? no. 2.419 (Madrid, 2004).

A Dream Comes True: Spain in the European Union, c.1975 to Present

FIGURE 6



The high-speed train AVE- Alta Velocidad Española.

Source: Fundación de Ferrocarriles Españoles, Madrid.

Spain's normalization and subsequent European integration via the international investment models shaped by French and German capital and expertise from the nineteenth century onward has been full of dramatic events, both for Spain and for Europe as a whole. These include the end of Franco's dictatorship in 1975 and Spain's successful democratization, the industrial crisis of the 1970s, Spain's full membership in the European Economic Community in 1986, the end of the Cold War in 1989, the acceleration of the construction of a European Union after 1992, and the rise of globalization. We view the Olympic Games of 1992, held in Barcelona, as a milestone in the recent business history of Spain. Interestingly, France and the FRG backed Spain's membership into the European Union (EU). Our research reveals an outspoken rivalry between major French and German investment plans in Spain (the high-speed train AVE—Alta Velocidad Espanola [see Figure 6]—became and remains a symbol). Yet most important for our research are the significant changes in patterns of French and German direct investment in Spain. Whereas the French rushed new capital into virgin fields such as retailing (hypermarkets), toll-paying motorways, and real estate, German investment focused for the first time on the motor industry. Spain's mass tourism model provides the backdrop for our story, one in which many of the original individuals and institutions still play relevant roles.

In spite of the successful development of French firms during the second industrial revolution, there was no obvious emergence of a new investment model. From the 1970s onward, French banks and insurance companies still played a major role, personal relations continued to be highly important, and the awareness of France's declining international

competitiveness and missed opportunities in some strategic areas was not always followed by action. An endless succession of meetings, reminiscent of former times, provides abundant evidence of the persistence of the nineteenth-century model of French investment. The impressive development brought about by the so-called Thirty Glorious Years in France, followed by the effects of the Spanish economic miracle, subsequently transformed France and Spain into mass consumption societies (see Figure 1).

The persistent economic gap between the two countries, in addition to the accumulated business experience and advantages created over the last one hundred years, persuaded old as well as new French investors of the virtues of Spain as an economic target. Moreover, economic reforms were taking place in Spain; an economic and commercial agreement had been reached with the European Economic Community in 1970. One probable issue of concern was that Spanish agricultural products could one day pose a problem to France's agriculture. The long-term evolution of French-Spanish trade indeed shows that Spain's exports of fruits and vegetables had declined since the 1980s.

Although in many ways geography had hindered Spain's modern economic development, geography came to support Spanish modernization. The combination of sunshine and long, safe, publicly owned beaches gave rise to a new phenomenon: mass tourism. This new sector proved more challenging to French-Spanish economic relations than had been the economic policy the Spanish technocratic elite had so carefully developed since the late 1950s or the slow normalization of Spain.

For obvious reasons, the French first discovered, influenced, and enjoyed Spanish mass tourism. The process started at the border (Costa Brava) and moved southward along the Mediterranean seaside (Costa Dorada, Costa Blanca, Costa del Sol) and the Balearic Islands. French tour operators identified and seized a new business opportunity: holiday resorts. Club Méditerranée built the first resort, in Alcudia (Mallorca), in the 1950s. The concept would succeed some ten years later, marking the beginning of intensive real estate activity that mainly involved French entrepreneurship and customers, and soon constituted a historically new kind of French community.

The overall impact of tourism was remarkable, as shown by the early experience of northeast Spain (Catalonia). The increasing demand for infrastructure and commerce was at the root of the use of French capital in developing toll-paying motorways and hypermarkets along the Catalan seaside from the late 1960s.⁶⁶ Carrefour's success as a hypermarket outdid any forecast: 25 establishments, most of them in Catalonia, emerged between 1971 and 1975. With 112 outlets in 2006, Carrefour leads

⁶⁶ Dominique Barjot, "Bouygues, 1952-1989: From the Building Industry to the Service Sector," paper presented to the EBHA Conference, Barcelona, 16-18 Sept. 2004.

the retailing sector and is among Spain's top ten firms. Other French retailers (E. Leclerc, Mammouth, Aucham, Intermarché, Jumbo, and Continent) followed Carrefour's trail, backing a new wave of French FDI in Spain. Family-owned and -managed, most of these firms were apparently newcomers. Specialized hypermarkets such as Decathlon (sports), Leroy Merlin ("do-it-yourself"), and Boulanger (electrical appliances) (see Table 4a) would later join them.

French capital continued to benefit from the implementation of the French-inspired Spanish development plans. Our research reveals that new opportunities arose in retailing, high tech agriculture (agribusiness), steel, and technical assistance, in addition to the sectors that have flourished since the 1960s (motor industry, glass manufacturing, and chemicals).⁶⁷ Of particular interest is technical assistance. Engineering became another visible area of this new and successful wave of French FDI in Spain. The state-owned group SOFRE (which included Sofremines, Sofresid, Sofrelec, Sofregaz, Sofrerail, and Sofreatom) took the lead beginning in the early 1970s. Note that these new business opportunities went hand in hand with enduring business institutions, such as the Madrid Chamber of Commerce, which in the early 1970s supported the creation of a quite effective French-Spanish committee (Comité de intercambios técnicos franco- español).⁶⁸

How did the end of dictatorship and the advent of democracy affect French positions in Spain? According to Valéry Giscard d'Estaing's memoirs, France was expected to patronize Spain's young democracy.⁶⁹ One of the immediate effects was the liberalization of foreign banking. French banks were very responsive, and the most significant banks quickly set up offices in Spain's largest towns. European investment soared and France improved its position among Spain's best foreign investors and trade partners. The expectations created around Spain's membership in the European Market explain much of what happened between 1975 and 1986. No doubt the industrial crisis of the 1970s, plus America's decreasing interest in the Old World, also stimulated French and German investment in Spain. Later on, Spain's willingness to create a network of high-speed trains (AVE) inspired by the French TGV (train à *grande vitesse*) reinforced French direct investment and technological influence. In addition, we should not ignore the economic influence of anti-terrorist cooperation since the 1980s.

The recent evolution of French-Spanish trade reveals the pre-eminence of the motor industry. Since 1974, transportation equipment has dominated both exports and imports, amounting to over 20 percent of total trade. This is the result of the French automotive industry's creation of a manufacturing and exporting platform of low-cost vehicles in Spain.

⁶⁷ FCCM bulletin, 1970.

⁶⁸ CCM Archives.

⁶⁹ Valery Giscard d'Estaing, *El poder y la vida* (Madrid, 1988).

Until recently, American manufacturers Ford and General Motors also successfully adopted this model. Table 4a shows that French capital has slowly but firmly regained much of its pre-eminence in Spanish big business. Yet it is not the old investment pattern that supports French capital and entrepreneurship. The French style of doing business abroad may have survived (think of the careful strategy used by many firms and the primacy of personal relations), but French strength and capabilities focus primarily on sectors of the third industrial revolution. It seems that French capital, having faced so many difficulties in competing abroad during the second industrial revolution, has succeeded in seizing the opportunities created in a neighboring country that was slow in completing its second industrial revolution (hence the success of the French motor industry and engineering) and fast to enter the ongoing third industrial revolution and globalization.

Of course traces of the first industrial revolution remain. According to the Bank of France's data, much French investment in Spain concentrated on transportation, hypermarkets, and banks. Banks and railways constituted the basis of French leadership in nineteenth-century Spain. Two important (and fascinating) topics we are still researching are the high-speed train project (AVE—Madrid-Seville, inaugurated in 1992 and mainly built by Alstom) and recent Spanish direct investment in France.

Meanwhile, the fulfillment of Spain and Germany's great aspirations, membership into the EU (in 1986) and the reunification of Germany (in 1990), respectively, have greatly influenced German-Spanish business relations. The economic diplomacy of both countries had focused on those goals since at least 1958.⁷⁰ Between 1986 and 1990, indeed, we see the highest degree of German economic influence in Spain, as measured by trade and investment flows, and exemplified by several big projects. It was during this short time period that the pattern of German-Spanish business and economic relations changed.⁷¹ The motor industry replaced the chemical and electro-technical industries as the target of German direct investment and the focus of Spanish exports to Germany. This historical change of pattern was the result of the acquisition and rescue of the Spanish semi-public firm Sociedad Española de Automóviles de Turismo (SEAT) by Volkswagen in 1982. The German motor industry had repeatedly failed to enter the promising Spanish market and manufacturing site during the 1960s and 1970s.

In the absence of public archival sources for this period, we have relied on private archives and oral history to understand this change in pattern. The German embassy in Madrid, managed by an efficient though controversial Madrid-born diplomat, Guido Brunner, played a crucial role in the defense of German private economic interests in the late 1980s and

⁷⁰ AA B-26 Spanish files.

⁷¹ ECE *Statistisches Jahrbuch der Bundesrepublik Deutschland*.

early 1990s.⁷² Germany's influence was not only economic, however: the Spanish Socialist party (PSOE—Partido Socialista Obrero Español—in power from 1982 through 1996) had been strongly supported by its German counterpart, the Sozialdemokratische Partei Deutschlands (SPD), since the late 1970s.

Trade statistics show that Germany's share of Spanish foreign trade grew steadily, reaching its peak in the second half of the 1980s: the FRG provided more than 16 percent of Spanish imports and received more than 13 percent of Spanish exports. Thus, Germany became Spain's main trade partner. From 1990 onward, however, Spain faced mounting competition from several Eastern European markets. Spain has never been essential to the German economy (except during the Second World War), but its position among Germany's markets and providers improved remarkably following the European integration of Spain.

German statistics show that Spain remains among Germany's ten largest trade partners, with around 4 percent of total exports and around 3 percent of total imports (Germany's first partner is France with around a 10 percent total share). More interesting, however, is the structure of bilateral trade. Traditionally based on the differences in degree of development of the two economies, it has experienced a substantial change in the 1980s, linked to the establishment of the German motor industry in Spain. Since then, the automobile has become the main component of German-Spanish trade. In 2002, for example, it constituted 25 percent of that trade. The chemical and electro-technical industries, its traditional cornerstones, each accounted for 5-12 percent, and Spanish fruits made up 10 percent of it.

There is a close link between the historical transformation of the trade pattern and the transformation of the pattern of German direct investment in Spain. According to available official data, German capital played an increasing role in the Spanish economy during the 1960s and 1970s in both absolute and relative terms (see Figure 5 and Table 3). In 1971, German capital outpaced American capital for the first time. Notwithstanding the geographic reorientation of Spain's industrial policy, the influx of German capital continued to focus on the Barcelona area (about 25 percent, compared with 10 percent to Madrid and 5 percent to the Basque country). German investment reached its maximum in the second half of the 1980s (when it was second only to French capital), before declining during the 1990s and early 2000s.

Since about 1990, German direct investment has been between 10 and 12 percent of total foreign investment (behind the United States, France, and the Netherlands, the new European platform for international investment). As for its regional distribution, accumulated investment has remained concentrated in Catalonia, followed by Madrid. German statistics published by the Bundesbank reveal that during the 1980s Spain

⁷² DHK monthly bulletins and minutes of the board of directors, 1986-1992.

became the fourth-largest destination for German capital, after France, the United Kingdom, and Holland.

The best year for German investment in Spain was 1990, when the country received over 5 percent of Germany's foreign direct investment. The percentage dropped by half by the early twenty-first century. The same sources show that the traditional pattern of investment has evolved from its three-pronged structure (chemicals, machinery, electro technics, roughly 25, 25, and 15 percent, respectively) to a more diversified structure under the hegemony of the automobile industry, with an increasing role in retailing.

The data in Tables 2b and 4b suggest that German leadership is rooted in the second industrial revolution. Chemical and electro-technical firms have consolidated their leadership, now shared by the motor industry and the footwear manufacturer Adidas. In contrast to the French experience, Germany has played a secondary role in the transformation of Spain into a service economy and in the implementation of the ongoing third industrial revolution. What persists is the successful pattern of the second industrial revolution, now extended to the automobile industry.

If we look more carefully, however, we see signs of other sectors catching up (retailing, for instance). The German trademarks Lidl and Plus, which are focused on the lowest segment of the market, are rapidly spreading. Most interesting, however, is the persistence of patterns in institutional settings and German international investors' style of doing business. The Chamber of Commerce remains an important institution. Despite serving primarily small- and medium-sized firms, it plays an important role in German-Spanish business relations and continues to be led by large firms.

Even more important is the economic division of the German Embassy. The period from 1982 to 1992 might have been exceptional, but German diplomacy has had an important economic dimension (quantitative as well as qualitative) that has survived the intensification of the European Union project. As for style, the approach of German firms is considerably more direct than that of their French counterparts, even during periods as turbulent as the second postwar era. The fact that German companies have been confident about their public powers from the mid-nineteenth century to the early twenty-first century probably explains much of this cultural difference.

Conclusions

In this paper, we have addressed the dynamics of international investment and examined the patterns of international investment developed by two major home economies (France and Germany) in a major host economy (Spain) over the past 150 years. Drawing on archival research and secondary literature, we have contextualized, described, and analyzed those patterns. Our analysis has focused on the specificities, accumulated advantages, and persistent features of French and German investment,

and the ways in which French and German firms have responded to challenges and eventually changed. Spain might serve as a mirror for the recent evolution of French and German direct investment in Eastern Europe.

Our comparative exercise shows that French and German capital developed specific investment models related to the wider institutional context, cultural background, and technological and organizational abilities of French and German firms. Spain's institutional setting and economic development has also shaped those models. Both have exhibited a degree of inertia since they emerged, at different times, within the framework of the first globalization wave. Yet both have faced exogenous as well as endogenous challenges that have moved them to adapt and eventually to change.

The focus of French activity, led by international investment banks, has been on Spain's natural resources, deficient infrastructure, and lack of capital, specializing in mining, railways, and public debt, and implementing French managerial ideas and practices in Spanish subsidiaries. In both quantitative and qualitative terms, the French had an overwhelming influence from the mid-nineteenth century to the outbreak of the Great War, thus shaping Spain's first industrial revolution and creating for themselves the advantages of the prime mover. Some authors have considered early French international investment to be "political." The Spanish experience reveals, indeed, that French firms excelled at lobbying and finding suitable local partners with no apparent help from their diplomats. The Péreire brothers are probably paradigmatic. However, Spain's chronic lack of political stability and financial resources, in addition to the fact that personal relations have prevailed over legal arrangements in Spanish society (as in many other Mediterranean societies), can also explain the close links between French bankers and Spanish politicians characteristic of the time. France's strong commercial position and the French community (the largest foreign community in Spain) matched the hegemony of French direct investment.

German investors operated differently. They arrived relatively late and behaved in accordance with the second industrial revolution. It was Spain's modest, though promising, market that had appealed to German pioneers since the turn of the century. In addition, Spain relied on German technical and commercial capabilities, with the effective assistance of their diplomats. Can we consider this a "technical" model, as opposed to the "political" model of French early investors?

It is true that, lacking the familiarity of French investors with Spanish bankers and the Spanish government, German firms used their technical leadership to seize the Spanish market in open competition with American and Swiss manufacturers. The Deutsche Bank was at the service of those firms, whose primary interest was increasing exports from their German plants. Moreover, there was no great need to court Spanish politicians (even though Gwinner did it), because German diplomats were active and

effective where German firms faced competition. The German Chamber of Commerce in Spain, in fact, was created during the extraordinary framework of the First World War.

Understandably, German investors concentrated in Barcelona, Spain's most industrially advanced area. The kind of German-Spanish social networks that emerged there were necessarily different from the more political and aristocratic French-Spanish networks in nineteenth-century Madrid. Germans constituted the second largest foreign community in Spain. Spain's mounting economic nationalism after 1917 stimulated German direct investment and apparent nationalization of their firms. An interesting feature of German management is the division of labor established early between "political" (often Spanish) directors, who dealt with the government, and "technical" (German) directors, who ran the business in accordance with their headquarters' wishes.

The French model of investment underwent a major crisis during the interwar years. Its moving force, the banks, lost much of its original dynamism; the Spanish market turned out to be narrower than expected, the Spanish partners and government were not as complacent as before, and most new business opportunities arose outside the original field of French expertise.

The French-Spanish business community seemed aware of the challenges posed by what historians later called the second industrial revolution. Yet awareness did not necessarily mean action. There were attempts (failed, as well as successful) to catch up and compete with rising American and German competitors in new sectors such as chemicals, electro-technics, and automobiles, but on the whole French influence declined. French managerial practice and ideas lost much of their original appeal, and France's diplomacy apparently did not defend its international business community. The subordinate role played by French firms within the international industrial cartels of the interwar period contrasts with the leading position of their German partners and rivals.

Between 1936 and 1958, extraordinary opportunities and dramatic events shook German private investment in Spain. Because of Spain's pro-Hitler attitude under Franco, the economic relations between Germany and Spain strengthened, and Germany became Spain's leading trade and technological partner until 1944. Firms and managers did not behave uniformly, but overall German-Spanish businesses boomed and many firms integrated vertically and increased their power in spite of Spain's exacerbated nationalism after 1939.

Germany's defeat and Franco's pragmatism created a new situation after 1945. German business assets in Spain were expropriated, and a long process of identification, appraisal, and sale under the Allies' supervision followed. Our research shows that in most cases, German owners came to terms with their (old or new) Spanish partners in order to retain control of their subsidiaries and joint ventures. Aware of the vital role played by German firms, the Spanish government gave its consent.

This extraordinary period witnessed changes in the organization and management of German firms. The economic relations between the newborn Federal Republic of Germany and Spain remained anomalous until the late 1950s, and German diplomats struggled to catch up. Spaniards became more visible and influential than ever within the firms. Technically and commercially, however, Germany continued to support their firms.

As the German economic miracle took shape, Spain laid the ground for its own miracle, and both countries became politically rehabilitated, German firms planned and executed the recovery of their Spanish subsidiaries with the support of German diplomats. Much of their former leadership and hegemony had been lost, but it would not take long to re-establish it and find new business opportunities within Germany's traditional areas of expertise in a country that was undergoing industrialization.

The evolution of postwar French investments in Spain was most interesting. French business people had gone through a hard time, with little support from their government, during the Spanish Civil War and World War II. Adversity, however, had a rejuvenating effect on many of them, and so the apparent decline of French economic influence was halted. Collective action and a very pragmatic approach to Spain's authoritarian regime and business leaders helped French firms play a remarkable role in Spain's industrialization. It was on this basis that the improved political climate between de Gaulle's France and Spain's technocrats created a new institutional framework and unique opportunities for French capital and expertise. Of particular relevance was the establishment of Renault, which brought the first step toward the transformation of Spain into an export platform of low-cost cars. Traditional patterns and habits remained, but the traditional French model of investment underwent remarkable changes; last and not least related to the emergence of a new industry in Spain under French leadership: mass tourism.

Meanwhile, German firms continued to build on their traditional model. It well served the demands of industrializing Spain and, after 1958, when the expropriation issue was finally settled, West German diplomacy did its best to defend the interests of German international entrepreneurship. Even though they faced tough competition from American and French firms, their accumulated capabilities and surviving networks helped them to increase their market share considerably. Unlike their French counterparts, which had to build new networks, German firms could rely on the old ones.

Yet the conquest, or re-conquest, of the Spanish market was not always easy. Strategies differed, but overall, German firms sought to take full control of their Spanish subsidiaries and to integrate them into their (commercial and manufacturing) European strategy. Spain's growth also appealed to companies with no previous experience in Spain. On the eve

of the oil shock, German direct investment in Spain concentrated heavily on West Germany's traditional industries, particularly chemicals. It remained behind, however, in the motor industry.

Spain's integration into the European Union after 1986 had significant effects on the patterns developed by French and German direct investment. We should not ignore the political dimension of this historical event, since France and the Federal Republic of Germany were Spain's main supporters. In a way, the "political" and "technical" nature of both national models converged, but the role of economic and business diplomacy remained different. We have stressed the intensification of French-Spanish and German-Spanish economic links as well as the structural transformation of the two investment models that has since occurred. Whereas French investors seem to have reached a new and very successful stage, in tune with the ongoing transformation of Spain into a service economy, German investment has kept much of its original, highly industrial, profile.

The late establishment of the German automobile industry constitutes a major transformation. Germany's re-unification and its subsequent increased interest in Eastern Europe explain the slow development of German direct investment in Spain since 1990, as opposed to the dynamism shown by French capital and entrepreneurship. There is abundant evidence about the accumulated advantages of French and German firms and the persistence of actors, strategies, and habits, particularly in German businesses. French investment had to re-invent itself after the decline of the interwar period. A new generation of French firms holds a dominant position in Spain's twenty-first-century business landscape. In contrast, German firms, with the notable exception of car manufacturers, have been familiar with the Spanish market for almost a century.

At the beginning of the twenty-first century, French and German capital and expertise still play a relevant role in Spain's economy and society. In the end, both national patterns of investment in Spain seem to have been consistent and stable. Persistence, however, does not exclude change. In fact, French firms had a hard time adapting to the technological and institutional foundations of the second industrial revolution. Their current leadership in the Spanish economy reflects a long and struggling process through three major revolutions. The German process, in comparison, has been cumulative, despite the dramatic events occurring in the central decades of the past century.

Although German investment in Spain keeps a markedly industrial profile, Spanish mass tourism has also given rise to new business opportunities. Since the 1980s, Germany and France rank second (10 million people) and third (8 million people) as customers of Spain's first industry, and the German and French communities continue to grow. Their growth is not so much in the original, predominantly business-

oriented and urban communities (about 15,000 each), but in the elderly, sun-seeking group (approximately 30,000 and 20,000, respectively).

We are confident that our ongoing research on the role played by French and German business influences in the recent rise of Spanish multinationals will allow us to look at foreign capital-led learning processes and sticky knowledge from a new perspective.⁷³

⁷³ Jones, *Multinationals and Global Capitalism*.

APPENDIX 1
Expropriation of German Business Assets, 1945-1975

Companies	Creation Date	German Capital (%)	Process of Repurchase	Main Survivors (1975)
Chemical and Pharmaceutical Firms				
IG Farben Group				
Sociedad Electro-Química de Flix	1897	51	Hoechst acquires the 25% in 1953. In 1970, Cros buys the remaining 37,5%	Wolfgang Just, Fernando Gimeno Muntadas, Cros family
Industrias Químicas Reunidas	1940	25	Acquired by Flix in 1961. Wholly controlled by Cros since 1970	Cros family
Cloratita	1923	60		
La Unión Química y Lluch/Unicolor	1899	100	Controlled by Birk, BCT, & FNCE; in 1969, Bayer & Basf acquire and sell the 100%	Ferdinand Birk and FNCE families
La Química Comercial y Farmacéutica	1899	100	Sale to Bayer AG in 1981 (100%)	José Luis Gallego
Instituto Behring de Terapéutica Experimental	1938	100	Progressive sale to Bayer AG (100%) until 1970. In 1972, Hoechst buys it.	José Luis Gallego
Fabricación Nacional de Colorantes y Explosivos (FNCE)	1922/26	50	Final situation in 1969: Bayer (50%), FNCE (33%), Unicolor (17%)	Belil Families, Sagnier and Milá
Agfa Foto	1881	100	100% Agfa Gevaert	Enrique Herold and Belil family
La Minera / Fodina	1914	70		
Continental Group				
Neumáticos Continental	1935	100	The Continental AG participation grows to a 86% in 1986	
Continental Fábrica Española de Caucho	1935	72		Ignacio Cortázar Landecho

Schering Group				
Productos Químicos				
Schering				
Química Española	1924	100	Wholly controlled by Schering AG in 1970	Primitivo de la Quintana, Adolfo Domínguez, Antonio Ansoáin, Antonio Martín de Prados
Tarsia				
Construcciones				
Industriales				
Merck Group				
	1924	100		
Boehringer Group				
Laboratorios	1933	100	100% Boehringer	Federico Marimón
Boehringer				
Exclusivas				
Farmacéuticas Uda				
Abelló Oxígeno	1907	50		
Linde				

Electro-Technics				
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Telefunken Group				
Telefunken Radio	1940	100	Telefunken majority	Antonio Barroso
Técnica Ibérica				
Fábrica de Tubos y				
Eléctrica				
AEG Group				
AEG Ibérica de	1901			
Electricidad				
Electra Industrial de		100	50% AEG since 1959,	Herbert Hellmann,
Tarrasa SA				
100% in 1962				
Hipólito González				
Parrado, Botín family				
and other banking				
families				
Electra Rubí SA				
Olympia SA				
Siemens Group				
Siemens Industria	1910	78	75% Siemens since	Aritio, Aguirre and
Eléctrica				
1962				
Muñoz-Rojas families.				
In electro-medical				
firms, Hipólito				
González Parrado and				
José Luis Gallego				

Siemens Reiniger Veifa	1923	100		
Industria Latina de Electricidad Aplicada (ILDEA)	1924	100		
Osram Group				
Osram, Fábrica de Lámparas	1914	100	Osram participation grows: 1959 (25%), 1961 (50%), 1970 (87.65%)	
Fabricación Nacional de Lámparas Eléctricas (FNLE)	1927	19,2		
Manufacturas Ibéricas de Lámparas Eléctricas (MILESA)	1927	33,33		
Insurance Companies				
Agrippina	n.f.	100	Settled	
Albingia	n.f.	100	Settled	
El Fénix Austriaco	n.f.	100	Settled	
Jauch y Huebener	n.f.	100	Settled	
Nacional de Stettin	1911	100	Settled	
La Victoria Incendios		100	Settled	
Multimar			Excluded	
Multimax			Excluded	
Vitalis			Excluded	
Deutsche Lloyd	1871	100	Pending	
Plus Ultra	1921	48,2	Banco de Vizcaya (1972)	
Victoria de Berlín	1914	100	Pending	
Norddeutsche	1918	100	Ehnrart	
Nordstern	n.f.	100	Meridional (subsidiary)	Juan Amat
La Constancia	1906	100	Spanish shareholders	Marimón
Cía. Europea de Seguros de Mercancías y Equipajes	1922	100	Spanish shareholders (with other shareholders)	

Banks				
Banco Alemán Transatlántico	1904	100	Deutsche Bank recovers ownership: 10% 1957, 25% 1971, 39% 1988, 51% 1989, 100% 1994	Demetrio Carceller and Pellicer Group men
Banco Germánico de la América del Sur	1920	100	Acquired by Dresdner Bank in the 1970s	Fernández de Araoiz family, Urquijo Group men

Source: Núria Puig and Adoración Álvaro, “¿Misión imposible? La expropiación de los bienes alemanes en España.”