The Bridge Model:
How Spanish Multinationals are Building Economic Ties between Asia and Latin America

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ABSTRACT

While the West is struggling to find a way out of recession, emerging markets present myriad opportunities for growth. This paper offers a new perspective on how global economic triangulation facilitates trade between regions. Triangulation occurs where barriers exist to trade and investment between two countries and a third party (e.g. a country) acts as a facilitator or bridge. The “bridge model”, as we call it, shifts the focus away from national policy as a facilitator of international trade and emphasizes the role of companies. Corporate bridge-building is essentially a form of economic triangulation, and we use the terms “bridge” and “triangulation” interchangeably. Various examples are cited to show how Spanish multinational companies have served as a bridge connecting Asia and Latin America, and in so doing have expanded their own business. Thanks to their links with both regions they create business relationships that might otherwise be impeded by cultural or language barriers, facilitating the flow of products, knowledge and financial resources. In this way firms in otherwise stagnating economies have an opportunity to grow by facilitating trade and investment between emerging markets via the bridge model.
I. Growth opportunities in times of stagnation

The rich world has not yet found a formula to get out of recession. Starting with the subprime crisis, in July 2007, and the collapse of Lehman Brothers in September 2008 in the U.S., the financial contagion spread worldwide. The ensuing period of slow growth and fiscal imbalances has extended for more than five years in the developed world, putting some countries at risk of insolvency, particularly in Europe.

Meanwhile, in what has been called the ‘emerging markets millennium’, the power of the global economy is re-balancing in favour of rapidly developing countries like China and India, whose economies have grown respectively at an average annual rate of 10.3% and 7.1% over the past 10 years.

Curiously, this offers an opportunity to companies in the stagnant economies of the developed world to facilitate business between emerging markets via “triangular” cooperation. Emerging countries are eager to trade between themselves (“South-South” trade, as it is commonly dubbed). Although globalization has made doing business between countries easier regardless of distance and time zones, it has not succeeded in eliminating all the obstacles that hinder trade and investment flows on a worldwide scale. Cultural factors – notably language barriers – and diverging business practices still undermine the potential for trade as well as being a major barrier to market entry.

In this paper we show how Spanish companies and institutions have taken on the role of “bridges” between Asia and Latin America, regions that were connected in the past but are beginning to rediscover each other. Since Latin America is Spain’s “natural market” (Casanova 2009), Asian companies interested in expanding into the region often have found and still find an ally in Iberian businesses and institutions, particularly when they lack the requisite knowledge of the cultural and business environment in such countries. In addition to a shared language and historical ties between Spain and Latin America, Spanish companies are familiar with financing options, government regulations and the macroeconomic context.

This research is particularly relevant given the increasing global importance of both regions. Although attention has typically focused on the spectacular growth of Asian economies, Latin America has been quietly constructing its own success story. In 2011, Brazil became the world’s sixth largest economy in terms of Gross Domestic Product (GDP) and it is a member of the G20

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1 According to some estimates, emerging countries will soon generate up to 70% of global economic growth in the coming years.
2 Annual data is obtained from IMF’s World Economic Outlook, October 2010.
along with Mexico and Argentina. Moreover, trade and investment between Asia and Latin America continue to grow at unprecedented rates.

Our analysis is based on insights from in-depth case studies of multinational companies (Casanova and Rodríguez Montemayor, 2012). These fall into three categories: (i) the majority are Spanish companies, both large multinationals and medium-sized businesses, that link Asia and Latin America; (ii) Asian companies that have expanded to Latin America via Spain; and (iii) Latin American companies that have expanded to Asia with Spain’s help. We interviewed executives from these companies in 2011 and compiled secondary data. The examples are not intended to be predictors of success, but rather to serve as a benchmark for others. The sample includes multinationals with extensive international experience as well as small and medium-sized businesses looking to expand into new markets.

The paper has the following sections: Section II sets the bridge model in the context of previous research on economic triangulation, Section III presents an analysis of the types of bridges that emerge from the case studies and Section IV presents our concluding thoughts.

II. The Bridge Model: Giving a New Focus to Economic Triangulation

The world economy is globalized, but the course of trade between countries does not necessarily run smooth. Barriers to trade and investment between specific countries abound, be they commercial (e.g. tariffs and other barriers which characterise protectionist policies), related to the cost of transportation or to fiscal considerations (see Gordon and Hines, 2002). Economic triangulation – when a third party facilitates trade by establishing a bridge – is one way to overcome such barriers.

Numerous studies have explored the role of national policies in creating economic triangulation in international trade. The myriad trade agreements that exist worldwide generate ‘hubs’ and ‘spokes’ whereby firms choose to locate in a particular country to serve other markets based on privileged bilateral trade agreements (Bhagwati, 1987). But although transportation costs and trade barriers have come down over time, trade between certain

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3 The G20 is a multilateral forum that has replaced the G8 after the crisis in 2008.
4 China has become a major trading partner of Brazil, Chile and Peru. Latin America’s share in Asian trade is still modest but growing rapidly, boosted by raw materials (e.g. copper, iron ore, soybeans).
5 We interviewed executives from Alfa Hogar, BBVA, Ficosa International, Garrigues, Miguel Torres SA, Port of Barcelona, Repsol and Telefónica.
6 We interviewed executives from Singapore Airlines.
7 We put forward the case of Mexico’s Cemex.
8 Mainly company data extracted from DataMonitor360 and Capital IQ.
9 Trade barriers are government-induced restrictions on international trade. They may involve tariffs and non-tariff barriers such as import licenses, export licenses, import quotas, subsidies, etc.
10 For example, the production of Japanese companies in Mexico to meet the demands of the U.S. market.
regions has failed to take off. Research has thus increasingly focused on other impediments such as lack of information about trading opportunities with other countries. The ability to locate foreign partners quickly and manage complex business relationships across cultural and linguistic boundaries is an increasingly scarce resource (Rauch, 2001). These “informational” barriers have the potential to shape bilateral patterns of trade and limit the ability of trade to equalize commodity prices across countries (Rauch and Casella, 2003).

Feenstra and Hanson (2004), using the example of Hong Kong, argue that traders there have an informational advantage in trade between China and the rest of the world. This may be due to Hong Kong’s proximity to mainland China, especially the southern coastal provinces where export production is concentrated. Hong Kong traders specialize in finding Chinese producers who meet foreign quality standards and in locating buyers for Chinese goods. This informational agility gives Hong Kong an advantage akin to an “entrepôt”, where merchandise is imported and then re-exported without adding information costs.11 This information-based view of “entrepôt” trade relates to theories of search and intermediation (Spulber, 1996; Townsend, 1978) and to general equilibrium models of international trade with information costs (Rauch and Casella, 2003). Blomqvist (2004) contends that Singapore has a similar informational advantage when trading with South-East Asia.

In the entrepôt context, agents with networks of foreign contacts either use their networks themselves in support of production or make their networks available for others to use, thereby becoming network intermediaries (Rauch and Watson, 2004). Previous research has focused on the role of export trading companies (ETCs) that sell products from a specific company, in strengthening trade ties between regions. ETCs have a deep knowledge of external markets/buyers and local production capabilities/producers in certain regions (Rauch 2001).

We contribute to the literature in two ways. First, we look at cultural differences as a part of the informational barrier. Since cultural barriers have been found to slow down trade (Kogut and Singh, 1988), we posit that the existence of a third party (particularly, a firm) which breaks down cultural barriers facilitates the flow of knowledge and reduces transaction costs. Our second contribution is to focus on the role of companies as opposed to national policy in fostering triangulation. It has been argued that differences in corporate culture are more relevant than cultural differences such as language (Shenkar, 2001). We posit that multinational firms rather than national governments are in a better position to mediate and foster triangulation on a global scale. Intermediation may be direct (e.g. ETCs) or emerge indirectly from partnerships between two or more companies. We provide numerous examples since little is known about how the process of triangulation occurs between specific companies.

Companies from a particular region (or with a presence in that region) can help firms from other regions enter either their own market or other markets that are both economically and

11 In its original definition, an entrepôt is a trading post where merchandise can be imported and exported without paying import duties, often at a profit.
culturally close (referred to as “natural markets”). Rangan and Drummond (2004) show that firms expanding into natural markets are better able to understand local consumer tastes and equipped to manage processes such as product development more efficiently.\(^\text{12}\)

**A new concept of triangulation**

In discussing the role of country characteristics (in this case Spain) in the process of triangulation, Soler-Matutes (2007) identifies three types of trade facilitation:

- commercial (countries with privileged bilateral trade agreements)
- fiscal (countries with more favorable tax jurisdictions)
- logistic (advantages in terms of geography and infrastructure)

When companies are facilitators of trade and investment (often through partnerships of the supplier-seller type in global value chains, mergers and acquisitions, etc.) then a “business” triangulation occurs. Soler-Matutes sees Spain as involved primarily in logistics and business triangulation.\(^\text{13}\)

Given our exclusive focus on firms, we propose a different approach (the bridge model), which classifies the types of triangulation according to the *objectives* of the companies forming the bridge rather than the *mechanisms* that facilitate triangulation. According to Soler-Matutes, the mechanism underpinning business bridges are the agreements between companies in two or more regions. However, companies may have several objectives when making such agreements. In the case where firms seek foreign counterparts to expand commercially in other regions, for instance, we classify such agreements as commercial bridges (because the objective is commercial).\(^\text{14}\) Cooperation between firms may aim at penetrating a certain market, developing a new technology, and also involves vertical relationships of the client-provider type.

Among the case studies cited above, we found five types of bridges:

**Commercial bridges** refer to agreements between companies of different regions that seek to overcome cultural and knowledge barriers in order for one or multiple partners to expand commercially in a region (e.g. entry to new markets).\(^\text{15}\) The ultimate objective, selling products, is based on horizontal and vertical alliances. The former refers to facilitating the entry of one company to sell its final products in a new region (usually facilitated by a firm in the same industry). The latter refers to supplier-seller partnerships in global value chains in which a

\(^{12}\) In addition, expatriate executives are more willing to move to countries with similar culture.

\(^{13}\) As part of the European Union, Spain is not well suited for tax arbitrage nor for commercial bridges.

\(^{14}\) This means that not only countries, with their different tariffs and trade agreements, can act as commercial bridges, but also companies, as they help overcome other types of non-trade barriers.

\(^{15}\) This bridge has not to do with advantages of trade agreements as in the definition by Soler-Matutes.
supplier in one region expands its businesses by selling intermediate goods to a company that sells the final goods in another.

A **business bridge** involves a third company which facilitates the closing of a deal between companies from two different regions, e.g., a Spanish company may help close a business agreement (such as share buying or an acquisition) between an Asian and a Latin American company.

A **knowledge bridge** could involve a Spanish company offering business and consulting services in Asia based on its knowledge of its “natural markets” in Latin America, or doing legal and fiscal consultancy work for Asian companies seeking to benefit from its familiarity with the legal framework of Latin American countries.

The objective of a **financial bridge** is to facilitate access for companies in one region to sources of funding from another. While it is supported by business agreements (like in commercial bridges), the ultimate goal is not commercial expansion into other markets but access to finance (where Spanish companies act as intermediaries, partners or facilitators of the agreements).

A **logistics bridge** emphasizes the role of companies and specific locations (e.g. Barcelona) as facilitators of triangulation based on local geography supported by adequate infrastructure.
III. Being a bridge: the Experience of Spanish Firms

In this section we present examples of companies that have played the role of bridge between Asian and Latin America. We cover companies of different sizes and in different industries from Spain, Asia and Latin America, including Alfa Hogar, BBVA, Cemex, Farmaegara, Ficosa International, Garrigues, Miguel Torres S.A., Port de Barcelona, Repsol, Singapore Airlines and Telefónica.16

Alliances between Spanish firms and Asian companies often go hand in hand with the business the former are doing in Latin America, their "natural market". A common feature of the case studies is that they create bridges between Asia and Latin America, regions that are geographically and culturally distant.

The nature and objectives of the bridges created are different. Although most examples refer to Spanish companies that kick-started the process of triangulation, we also include one example of an Asian company, Singapore Airlines, and one of a Latin American company, Cemex, that were initiators. For instance, the Spanish company Telefónica initiated a triangular business model that involves Chinese suppliers and Latin American consumers. By contrast, the Asian company Singapore Airlines initiated a logistics bridge by including a stopover in Barcelona for its flights to Brazil.

The Commercial Bridge through Vertical Alliances: Facilitating the Flow of Products Globally

Table 1 summarizes the different types of bridges. Note that the commercial bridge involves different sub-types. Horizontal alliances refer to agreements between companies, such as joint ventures or acquisition of operations, that facilitate the entry of one or several companies to sell their end products in a new region. Vertical alliances refer to supplier-seller partnerships in global value chains whereby a supplier in one region expands its business by selling intermediate goods to a company that sells the final goods in another region. The alliance may be upstream if the company is a provider to another company that sells the final goods or downstream if the company sells final goods using inputs from partners.

In a commercial bridge context, the Spanish company offers Asian partners access to its "natural markets", Europe and Latin America, in exchange for a commercial presence in Asia (horizontal alliance) and often in combination with other perks such as low-cost manufacturing (vertical alliance). Even if Asian companies have some knowledge of Latin America, direct expansion into the region may not be feasible given the low volume of sales, which does not

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16 This sample is not big enough to be representative but our goal was to have a qualitative study, which would show a number of best practices.
17 For a complete description of all the cases, see Casanova and Rodríguez-Montemayor (2012).
allow enough economies of scale to cover sunk costs or the risks associated with the geographical area and new products.\textsuperscript{18}

Table 1. Summary of different types of bridges

<table>
<thead>
<tr>
<th>Bridge objective</th>
<th>Mechanism that Facilitate the Bridge</th>
<th>Examples</th>
<th>Goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial</td>
<td>Vertical alliance: downstream value chain</td>
<td>Telefónica with Huawei and ZTE</td>
<td>Cost efficiency for seller of final products (e.g. Telefónica)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Farmaegara with suppliers in India and China</td>
<td>New products for seller of final products (e.g. Miguel Torres)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Miguel Torres with South American Vineyards</td>
<td>New markets for suppliers (e.g. ZTE, Huawei)</td>
</tr>
<tr>
<td></td>
<td>Vertical alliance: upstream value chain</td>
<td>Ficosa with Japanese car companies</td>
<td>Cost efficiency for Japanese car companies and new markets for Ficosa</td>
</tr>
<tr>
<td>Horizontal Alliance</td>
<td>BBVA and CITIC</td>
<td></td>
<td>New Markets</td>
</tr>
<tr>
<td>Financial</td>
<td>Acquisition</td>
<td>Repsol and Sinopec</td>
<td>Access to capital by Repsol; access to natural resources by Sinopec</td>
</tr>
<tr>
<td></td>
<td>Source of financing</td>
<td>BBVA with JBIC and China Develop. Bank</td>
<td>Access to financial resources for projects in LATAM (JBIC, CBD) and more revenues for BBVA</td>
</tr>
<tr>
<td>Logistic</td>
<td>Infrastructure for transportation of goods</td>
<td>Port of Barcelona</td>
<td>More revenues for the Port of Barcelona and cost efficiency for ships from Asia</td>
</tr>
<tr>
<td></td>
<td>Infrastructure for Transportation of people</td>
<td>Singapore Airlines</td>
<td>Cost efficiencies and new markets for Singapore Airlines</td>
</tr>
<tr>
<td>Knowledge</td>
<td>Consulting / Advice</td>
<td>Garrigues</td>
<td>Gain more knowledge about industries and countries</td>
</tr>
<tr>
<td></td>
<td></td>
<td>BBVA and JBIC</td>
<td></td>
</tr>
<tr>
<td>Business</td>
<td>Negotiation</td>
<td>Cemex España</td>
<td>Facilitate alliances, acquisitions, mergers, etc.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Repsol and SINOPEC</td>
<td></td>
</tr>
</tbody>
</table>

Telefónica, a global leader in the telecommunications sector,\textsuperscript{19} has acted as a bridge between Chinese companies and Latin American consumers. It has vertical business alliances with its Chinese telecom suppliers Huawei and ZTE, who are competitive in terms of costs.\textsuperscript{20} In this “downstream” vertical alliance, the Spanish company sells the final goods while the Chinese companies are the suppliers of the telecommunications equipment. In other words, Telefónica's relationship with Huawei and ZTE is based on value chains, i.e. partnerships to

\textsuperscript{18} According to the gradual internationalization model discussed by Soler-Matutes (2007), Asian companies could use their subsidiaries in Spain as a provisional bridge to Latin America when the market volume does not justify direct installation or unknown risks that discourage the installation.

\textsuperscript{19} Telefónica employs over 280,000 workers and has 1.7 million direct shareholders. It offers land line services, mobile telephones and services, broadband, Internet, television, among other value added services and media. In 2010 it had approximately 288 million customers and revenues of €60.7 billion.

\textsuperscript{20} Huawei is the second largest telecommunications equipment provider globally behind the American Cisco and ahead of France’s Alcatel Lucent.
produce certain final goods/services. These alliances form a commercial bridge because the Spanish company indirectly facilitates the entry of these Chinese companies to Latin America and products made in China end up in Latin America markets.  

Telefónica’s internationalization initially took off in its natural markets in terms of geographical (Europe) and cultural proximity (Latin America). Headquartered in Spain, it has subsidiaries in Europe and Latin America (the latter being the largest in terms of revenue). By 2004 Telefónica was already the main foreign client of suppliers like Huawei and ZTE that offered telecommunications equipment and equipment at competitive prices.

Commercial bridges can also be formed by smaller firms. Farmaegara, a Catalan family business created in 1997 for the acquisition, storage and distribution of pharmaceutical products to pharmacies, hospitals and other healthcare institutions, created a vertical commercial bridge by distributing pharmaceutical products in Latin America (Dominican Republic, Colombia and Cuba) and acquired in Asia. The Spanish company bought the generic medicines in India, the capsules in China, and marketed the products in Latin America. One company director told us that people in India regard Spain as a good partner for Latin America given that India has little direct experience in this continent and no cultural knowledge.

Miguel Torres S. A., a Catalan family business founded in 1870 and dedicated to the production of wine for domestic and international consumption, has created a commercial bridge in which it sells wine produced in South America to China. The supplier is a company member of the Torres group based in Chile. After the global financial crisis in 2008, the foreign market came to represent up to 70% of sales. Torres has become the second-largest wine distributor in China both for the wholesale business and retail, and has recently launched its first wine brand.

Spanish companies have also been involved in “upstream” vertical alliances that connect Asia and Latin America. Ficosa International SA, a leading company in the automobile components sector, supplies components to Asian automotive brands (e.g. Toyota, Nissan, Honda, Mazda, Hyundai and Chery), whose cars are sold in Latin America. The bridging role involves both the sale of components produced in Asia (and later sold in Latin America) and sales to Asian firms with production facilities in Latin America. Ficosa first established partnerships with the big Japanese brands and the Korean Hyundai. Its links with the Chinese company Chery, which began selling cars in Brazil in 2009, are expanding rapidly.

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21 There would be a business bridge if Telefónica would have provided either ZTE or Huawei a business alliance with a Latin American company. However, other business agreements these Chinese companies have in Latin America they made on their own.

22 The total turnover of the company at the end of 2010 was approximately 103 million euros. The annual average of workers has grown year after year, with an average of 63 people over 2010.

23 The company operates in 140 countries and employed in 2011 approximately 700 people.

24 The company had a turnover exceeding 160 million euros in 2008.

25 The Symphony Series is a white wine that initially produced around 12,000 bottles.

26 Ficosa covers the research, development, production and marketing of such components.
Despite the close ties between domestic companies in some Asian countries as in the closed networks or keiretsu in Japan and chaebol in South Korea, which favor partnerships with domestic suppliers, Asian manufacturers find in Ficosa an ally because suppliers from their own countries are faced with high barriers of entry into Latin America and Europe due to cultural differences and economies of scale. A request from Toyota or Nissan, for example, would not allow a Japanese supplier to achieve the volume and economies of scale of the Spanish company.

Companies involved in global value chains do not necessarily connect the regions in which they operate. Alfa Hogar, a medium-sized Spanish company that designs, develops and markets small household appliances for the European market, bases the design of its products in Latin America and the manufacturing in Asia and currently sells the final goods in Europe. The Spanish company designs and develops its products in partnership with engineering and design firms located in Argentina. It manufactures its entire product portfolio in collaboration with industry partners in Tokyo, Hong Kong and Xiamen, China. The commercial bridges between both continents in which the Spanish company sells products manufactured in Asia in Latin America are to be created soon. The company’s industrial agreements have established Europe and Latin America as its target markets. Alfa Hogar will begin marketing its products in Chile and Mexico, moving on to Colombia, Peru, Brazil, Panama and Argentina. Should Alfa Hogar succeed in commercializing its products in the Asian market through local partners, it will sell products in Asia that incorporate design and engineering developed in Argentina and Barcelona, creating a second type of commercial bridge.

The Commercial Bridge through Horizontal Alliances: Expanding to New Markets

Commercial bridges can also be based on horizontal business alliances. Telefónica not only has vertical alliances with Chinese suppliers but is seeking to obtain synergies and to penetrate Asian markets through more "horizontal" partnerships. It first bought stakes in China Netcom (CNC), based in Hong Kong and signed a cooperation agreement with China Unicom to strengthen their strategic ties. Under the agreement, which provides mutual support in marketing and customer service, Telefónica will be able to use contacts or interconnection “nodes” from China Unicom’s network in countries where it has no presence, while China Unicom will benefit from Telefonica’s network in Latin America and Europe for expanding operations.

27 Alfa Hogar belongs to Alfa Group, an industrial group diversified across various activities and consisting of five business units: stamping, machining, casting, art and consumer products (Alfa Hogar). The Alfa Group in its entirety consists of over 700 employees and has a turnover of €102 million. Alfa Hogar in particular, had €12.5 million in turnover in 2011. Alfa Hogar products include domestic vacuum conservation, household appliances for families with young children, and leisure sewing and as of early 2012 had a presence in Spain, Portugal, France, the UK, Italy, Switzerland and Austria.

28 Unlike key competitors such as Vodafone and France Telecom, who have significant operations in Asia, Telefónica still does not have a significant presence in the region in terms of market penetration.

29 As part of this alliance, which is based on exchange of shares, both firms have agreed cooperating in the development of infrastructure and equipment, the development of a common platform for mobile services, joint purchases of new technologies, and the provision of joint services to global clients.
BBVA, a global bank with operations in more than 30 countries, whose main markets have been Spain and the Americas, including the U.S., is increasingly doing business in Asia supported by its operations in Latin America.\(^{30}\) BBVA’s “bridging” role operates through several mechanisms and the most common is the horizontal agreement. Spain offers better access to its natural markets in Latin America, while Chinese companies provide access to their vast national market. Since 2007 BBVA has become a strategic partner of the China National CITIC Bank (CNCB)\(^{31}\) and in 2011 they signed an agreement whereby BBVA branches in Latin America would provide their corporate customers with services in *renminbi* for foreign trade operations in real time and at local rates.\(^{32}\)

**The Financial Bridge: Facilitating Resources for Doing Business**

Even though market access is often the main goal, companies that create partnerships may have secondary objectives such as looking for financial investment opportunities or access to capital and funding sources, without necessarily expanding into other markets.

Repsol, an integrated energy company with operations in more than 35 countries for the exploration, production, refining and *marketing of crude oil and natural gas*, created a financial bridge with the Chinese Sinopec in order to exploit reserves from recent discoveries of oilfields in Brazil.\(^{33}\) In this triangulation, Brazil has the reserves, Repsol has experience and know-how in the region, and Sinopec brings additional capital because Sinopec had the money but insufficient “local” knowledge to make investments of this magnitude in a region that is not its "natural market". Repsol announced the sale, through a capital increase, of 40% of its Brazilian subsidiary to Sinopec. With the entry of the Chinese company, Repsol is able to cover the investment required to capitalize on the recent discoveries.

There are examples of alliances that do not involve mergers or acquisitions but that facilitate access to resources. In the partnership between BBVA and the Japan Bank for International Cooperation (JBIC), for instance, the Spanish bank has facilitated funds and has given risk-management advice to JBIC for its investment projects in Latin America.

The financial bridge can also be achieved through companies of the same group. CEMEX, the Mexican construction materials giant, has carried out international expansion through its

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\(^{30}\) BBVA employs about 110,000 people globally and recorded revenues of approximately EUR 20.9 billion during the period of the fiscal year ending December 2010. It provides commercial banking services, investment banking, insurance and pension funds.

\(^{31}\) CITIC group is a state-owned conglomerate based in Beijing that offers banking, investment, insurance and communications services through its subsidiaries. CNCB is one subsidiary which private capital.

\(^{32}\) Since June 2010, Chinese authorities allow companies from 20 provinces to do business in *renminbi* with clients from anywhere in the world.

\(^{33}\) In 2005, Repsol YPF won 16 exploration areas off the coast of Brazil in the productive basins of Campos, Espiritu Santo and Santos. In 2007 the company made discoveries in deep waters of the Carioca oil field in the Santos basin; two years later they discovered the Guará field and other additional reserves.
Spain had for many years cheaper access to financing than Mexico, which used to be a non-investment grade country. Part of Cemex’s international operations, including the acquisition, holding and sale of investments in Asia, go through its office in Madrid. Cemex’s European headquarters were originally in London but moved to Madrid in 2006 from where Asian operations are overseen.

The Knowledge Bridge: Learning and Expanding Business

BBVA has created a knowledge bridge by sharing its knowledge of Latin America with Asian firms and institutions, including the Japan Bank of International Cooperation (JBIC), which received advice from BBVA before investing in the region. In another example, Chinese banks were eager to learn from the reforms in Latin America’s pension systems, an industry where BBVA has played a key role as administrator of funds. A cooperation agreement with China National CITIC Bank (CNCB) includes collaborative consultation on the structure of pension plans, product design and customer service. BBVA’s competitive advantage in terms of knowledge attracts other institutions that seek cooperation. In January 2011, the China Development Bank (CDB), the country’s largest bank by assets, signed an agreement with BBVA to promote cooperation between the two banks in business outside of China, mainly in Latin America, in areas such as trade and project finance, business services, financial derivatives, corporate banking and bonds.

Garrigues, the largest law firm and tax consultancy in Spain and continental Europe, has created a legal knowledge bridge with China. The Shanghai office, its largest in an emerging market, is characterized by two main activities: legal advice to foreign companies, mainly Spanish, Portuguese and Latin Americans who want to invest in China, and advising Chinese companies looking to expand abroad. Francisco Soler, a partner who opened the Chinese office, emphasized the importance of the experience in both continents: "The fact that Garrigues has over 15 years accompanying its clients in its operations in China led to our knowledge of the country, the market, and our contacts at all levels: institutional, corporate, from other law firms, etc." He also emphasized the importance of coordination since the offices in Shanghai and Latin America often work through their Spanish office in a collective and integrated way on business projects.

Cemex has formed a knowledge bridge based on the human capital in its own firm. The subsidiary in Spain leads the Mexican group’s operations in Asia because its executives have already built up a good knowledge of those markets.

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34 Founded in 1906, CEMEX has operations in over 30 countries and is the third largest cement firm in the world after Lafarge, in France, and Holcim, based in Switzerland. The company recorded revenues of 14.1 billion dollars in 2010 and employs approximately 46,500 persons.

35 Garrigues has been a pioneer in the internationalization of its legal practice based on the strategy to “follow their clients”, supporting them in their investment needs and accompanying them in their operations abroad.
The Business Bridge: Closing Business Deals

This type of bridge involves the participation of a third company to facilitate the closing of business agreements between companies in two different regions. At Cemex, as stated above, the Spanish subsidiary, has been the facilitator of Asian investments. Another example in this category is Sinopec’s buying of shares in Repsol Brazil, where Repsol, as the parent company, was in charge of the negotiations.

The Logistical Bridge: Geographical and Infrastructure Advantages of Spain

With the rise of Asia, the Mediterranean is regaining the role it played in the first millennium. It’s much faster to travel by sea between Europe and Asia via the Suez Canal and the Mediterranean Sea than across the Pacific and the Atlantic. Aware of this logistical advantage, the Port of Barcelona, a key hub in the Euro-Mediterranean region, has actively made efforts to attract new customers seeking to transport goods to Europe and also to connect to other regions including Latin America. The Port is specialized in general cargo and high value-added goods including consumer goods, electronics and vehicles, and is in the process of expansion. The Chinese group Hutchinson Port Holding (HPH), the world leader in terminal container management, became a key stakeholder in the expansion of the new container terminal in 2006, which is now key for trade with China. The role that the Port plays in the Europe-Asia-Latin America triangulation is enhanced by the fact that the Port of Barcelona’s offices outside Europe are located in China, Japan, and Buenos Aires.

Singapore Airlines transports passengers and cargo all over the world. The company has set its sights beyond Asia; Europe is one of its key destinations both as a final destination and as a hub. In late 2011, Singapore Airlines started operating a Barcelona-São Paulo flight in a shared code with Spanair, an extension of an existing route between Singapore and Barcelona. The airline has chosen El Prat airport not only due to Barcelona's strategic location and good infrastructure, but also due to the experience Spain has with frequent air connections to several cities in its natural markets of Latin America. Singapore Airlines has already identified the potential for growth in Latin America. However, there are many "barriers" before it can fully enter this region. Tan Tiow Kor, the airline’s Vice President of Sales and Marketing, said that "Given the differences in culture and language, it helps to have a strong and respected contact at the local level to introduce us to the appropriate business partners with whom we

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36 Other factors that determine the creation of a hub are the availability of human resources, ease of customs formalities, the country’s access to trade agreements, loading and unloading and tax issues.
37 HPH is the largest port operator worldwide and leader in container terminal management (with 51 ports in 25 countries). In 2006 it became the largest shareholder of TERCAT, the group that has the concession for the expansion of the new container terminal at the Port of Barcelona. The presence in Asia is particularly strong, but the company also has terminals in Buenos Aires, Mexico and Panama.
38 The airline is headquartered in Singapore, employs more than 30,000 people and recorded revenues for 8.9 billion dollars during the year ending March 2010.
39 Source: iAdvisory/iNews in Singapore
40 El Prat has increased connections to destinations outside Europe by 75% in the last five years and, as part of this process, launched a new intercontinental route with Miami operated by Iberia.
can form a team to win the confidence of the key actors, such as local logistics companies, the carriers and airport authorities.  

**Bridges can have multiple purposes and operate in different ways**

Garrigues is an interesting example because its services involve several types of bridge. Firstly, it involves knowledge because the firm offers advisory services to Chinese companies. Secondly, it creates a commercial bridge because the legal firm encourages Chinese business activity in Latin America by helping remove barriers to trade, particularly given the lack of knowledge of Chinese companies about Latin American legal frameworks. Tax advice is an important part of the package of services, which implies that knowledge gathering does not always have a commercial objective.

There are various ways of carrying out business agreements. BBVA has taken a share in the CITIC Bank’s capital, Sinopec has bought part of Repsol’s subsidiary in Brazil, while Telefónica has entered into a purchase agreement for cross-shareholdings with China Unicom. By contrast, Farmaeagara formed a joint venture with Asian companies so as to grow in the Latin American market. The Garrigues case is different because the Spanish Law firm did not form alliances with other companies but became established in China through greenfield investments.

**IV. Bridging as an opportunity for economic growth**

The business examples cited here show that it is possible for two regions to succeed in doing business despite geographical distance. Cultural differences between Asia and Latin America, rather than being regarded as an obstacle, represent an opportunity for companies to bridge the gap and internationalize and grow.

The fact that multiple types of bridges exist reflects the extent of the business opportunities presented. Positive results from companies like Telefónica, that weathered the global crisis (net profits did not decline initially) suggest that it got things right; its expansion into emerging markets, primarily Latin America has contributed to better results despite the economic turmoil affecting the developed world. With the take-off of emerging markets, this is the moment to do business with these countries.

The number of successful cases will, however, depend on the participation of different actors in the economy: from the private, public sector and academia. Synergies are crucial, particularly in times of crisis. The expansion of many Spanish companies into Latin America occurred in the 1990s – a time where others saw only crisis, the Spanish saw an opportunity to contribute to regional growth and to learn. While their expansion in Latin America has been

41 The article can be found in www.iadvisory.com.sg
aggressive, Spanish companies have ventured into Asia more timidly, mainly because of a lack of human capital with Asian expertise.

For companies looking to internationalize, it is essential to have a business model that combines cost advantages (seeking vertical alliances with competitive partners) and access to growing markets supported by horizontal alliances. Companies must be able to find new markets, first identifying needs in Latin America and Asia, and then the best way to meet those needs, as exemplified in the case of Miguel Torres and Alfa Hogar.

Knowledge is a critical success factor for entering markets, locating partners and sources of funding. It has been a major asset for Spanish companies seeking Asian partners to develop projects in Latin America in areas such as infrastructure, construction and development of renewable energy. Repsol, for example, has used its presence in its natural market in Latin America to obtain financing from a Chinese giant. This is what Spanish companies should be looking to do in areas that require major investment to develop projects, where funding can be undertaken by firms and Chinese banks.

Since Asia is a major hub of innovation, companies should seek to bring Asian innovations to the Latin American market. They should seek to focus cooperation between Asia and Latin America on the innovations springing up in these regions. The field of renewable energies, for example, in which Spain has a strong international presence, could be particularly fertile for triangular expansion. Combined with the innovation produced in developed countries, this could result in a fruitful exchange of experiences and solutions across three regions.
References


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