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Spain accelerates troop withdrawal from Iraq

Impact of EU enlargement

The withdrawal of the 1,300 Spanish troops from Iraq has begun quicker than expected, angering the US administration, as it abruptly reversed the more actively Atlanticist policy of the previous Popular Party (PP) government, and exerting pressure on other members of the US-led coalition (Honduras and the Dominican Republic quickly followed suit).

José Luis Rodríguez Zapatero, the new Socialist prime minister and Spain's fifth since the restoration of democracy after General Franco's death in 1975, had initially said the troops would be withdrawn by June 30 (when formal sovereignty is to be handed over to an Iraqi government) unless the United Nations took political and military control. But following soundings by Miguel Ángel Moratinos, the foreign minister and the EU's former special envoy to the Middle East, and José Bono, the defence minister, the government said it was convinced there would be no new UN resolution that would satisfy its conditions. The government wanted to wash its hands of the whole Iraq business as quickly as possible.

The pull-out, the very first decision taken by the new government, is symbolically but not militarily important. Spanish troops account for less than 1% of the US-led forces in Iraq, but the withdrawal is a blow to Washington's efforts to maintain a united allied front at a time when the situation in Iraq is rapidly deteriorating in the run-up to the handover. Extra British troops could step into the breach and fill the gap left by the Spanish withdrawal.

The olive branch offered by the government (more a fig leaf, the *Financial Times* wryly commented) is increased civilian assistance in Iraq and a bolstering of Spain's small presence in Afghanistan, but this is of little comfort to the US whose death toll is already more than 700.

The commitment to withdraw the troops was first taken in March 2003, at the time of the invasion, when only the most optimistic members of the Socialist party thought they would win the general election a year later. The terrorist blasts in Madrid on March 11 that killed 192 people only served to reinforce the Socialists' commitment and, importantly, public opinion is even more against the war. On the basis of these arguments, Zapatero decided he had no other alternative but to bring the troops home without any delay. According to an opinion poll by Sigma Dos published in *El Mundo* on April 26, 67% of Spaniards support Zapatero's decision. It also said that 91% of

Socialist voters backed the withdrawal, compared with 26% of those who voted for the Popular Party (PP), now the main opposition party.

Withdrawal is the easiest and most popular option and the one with the least domestic political fall out. The government is a minority one, and two of the parties (to its left) that give it an absolute majority in parliament, the United Left and the Catalan ERC, have the capacity to make life difficult for the Socialists. It is politically convenient for the Socialists to have the troops back home before the June 13 European elections.

The government could have stayed the course until June 30 and worked for a new UN resolution. Had there been one, and with Spain's impetus there might have been a new UN mandate, Zapatero could have claimed much of the credit and gained prestige instead of now being classed as an unreliable ally by the US. But the government decided that the wait was not worth putting the lives of Spanish troops at risk for any more time. So far only nine (non-combatant) Spaniards have been killed. Economically, the government also felt it had nothing to lose from its withdrawal: Spanish companies have so far only won two contracts for the reconstruction of Iraq.

First actions of the new government

Zapatero's first foreign visit as prime minister, in line with a post-Franco tradition, was to Morocco. The two countries agreed to improve their strained relations, caused by immigration, fishing disputes and drug-trafficking, and particularly to boost anti-terrorist cooperation. Fourteen Moroccans are being held in Spain on suspicion of involvement in the March 11 bombings. Some of them are also suspected of having links to the attacks in Casablanca last year in which 41 people, including several Spaniards, died.

The Association of Moroccan Immigrant Workers (ATIME) in Spain called for the government to adopt a system similar to France's in order to supervise mosques, and imams, and try to ensure they are in moderate hands. Spain has an estimated 500,000 Muslims and more than 200 mosques, some of them little more than converted garages or storefronts.

The ATIME is concerned to counter the risk of growing racism in Spain, as a result of the negative associations of Islam, and to take the needs of the Muslim community more into account. Despite the huge rise in the number of immigrants during the eight years of the previous PP government, Spain has so far been remarkably free of racial tension.

The Socialists are to reverse the previous government's plan for Roman Catholic religion classes in state schools (a promise made long before the blasts as the Socialists believe it goes against the letter if not the spirit of Spain's secular state, though the Roman Catholic Church remains in a much more powerful position than in France, for example). The government will look at the possibility of offering special classes to young Muslims.

ATIME's call for some kind of supervision could also involve state financing of Islam. If it was granted it could reduce the role of foreign support for mosques in Spain, which comes mainly from the Gulf States, and with it Wahabism, a more orthodox reading of Islam taught in Saudi Arabia. Most of the imams in Spain, according to ATIME, teach the Wahabi tradition.

Spain's many intelligence and security services are to be placed under a single, unified command to co-ordinate the fight against terrorism. At present, Spain's armed forces, national police and civil guard operate separate, and sometimes rival, intelligence services, in addition to the official CNI secret service. The Basque Country and Catalonia have their own police forces. By bringing all these forces under a unified command, the government hopes to make the fight against international and local terrorism (the Basque group Eta) more effective. The new Interior Ministry is responsible for external as well as internal threats to national security. The government said it would also hire 36,000 new police officers over the next four years.

As regards Spain's autonomous regions, the government is prepared to be more flexible than the PP and reform the statutes laid down in the constitution provided there is broad parliamentary support for changes and they do not violate the basic tenets of the constitution. This could mean greater autonomy for Catalonia, but the government, like the opposition Popular Party, remains firmly opposed to the Basque plan for a status of "free association" with the Spanish state. The Senate, whose role in political life is marginal, is to be finally reformed and become a body representing the 17 regions.

The government is to ease Spain's major house price crisis, which has put the buying of a home beyond the reach of most young people, by building 180,000 homes a year at "accessible prices". The boom in construction, during which prices have soared, was underscored by the recent release of two significant figures for 2003. The construction sector's share of GDP reached almost 18%, while 40% of foreign direct investment went into the sector. Jaime Caruana, the governor of the Bank of Spain, added his voice to those warning about the risks of an economic model based too much on bricks and mortar (and very strong domestic demand).

There was good news for women in the new government. Spain, traditionally one of Europe's most male-dominated societies, is now on a par with Sweden in terms of the equality of the sexes as regards ministers. Of the 16 new ministers, eight are women including for the first time a deputy prime minister. Women hold the portfolios of the presidency, education, culture, health, infrastructure, housing, the environment and agriculture. Other taboos in the *macho* society are to be tackled: the constitution will be amended to remove the preference of male over female in the succession to the throne and laws changed to allow same sex marriages.

Impact of EU enlargement

The government immediately faced the challenge of the enlargement of the European Union as of May 1. Its long-term impact on Spain will be considerable, particularly the substantial reduction, or elimination, of the large volume of EU funds the country receives. Losing these subsidies, however, is the price of success.

The number of citizens in the enlarged EU-25 has increased by 75 million (20% of the EU-15 and 1.8 times Spain's population of 41 million) to 450 million, making its total population half as many again as the United States. The combined GDP of the 10 countries that have joined the EU is less than that of Spain's more than US$800 billion in current prices. The land mass has risen by 25%; the EU now stretches from the Atlantic to the Pripet marshes. All of these factors make the EU a very different entity to what it was when Spain joined in 1986, when neither the euro nor the single European market for goods and services existed.

The EU has acquired a "rich-poor" divide that is much wider and more extensive than the one created when Spain joined. Per capita GDP in the 10 acceding countries plus the two candidate countries Bulgaria and Romania that expect to join the EU in 2007 averages around 50% of the EU level (see Table 1). When Spain joined, its income per head was 74% of the then EU average. Today it is 88%.

Table 1. Per capita GDP in purchasing-power parity rates of Spain and the new EU countries, 2004F

EU15	100
Spain	**88.1**
Bulgaria	29.8
Cyprus	78.8
Czech Republic	63.2
Estonia	44.7
Hungary	56.6
Latvia	37.8
Lithuania	43.2
Malta	69.8
Poland	43.7
Romania	29.9
Slovenia	70.6
Slovakia	49.5

F = forecast.
Note: purchasing-power parity rates give a more accurate comparison of living standards than market exchange rates as they reflect price differentials between countries.
Source: Eurostat.

Not only are there marked cultural differences among these countries, but also significant variations in the level of human development. The country closest to Spain's level of development is the tiny island of Cyprus which was ranked 25th out of 175 countries in the 2003 United Nations Human Development Report, compared with Spain's 19th position (see Table 2).

Table 2. UN Human Development Index for Spain and the EU accession and candidate countries

Ranking (1)	Life Expectancy at Birth (2001)	Adult Literacy Rate (% aged 15 and above) 2001	Combined Primary, Secondary and Tertiary Gross Enrolment Ratio (%) 2000-01	GDP per Capita (PPP US$) 2001
19. Spain	**79.1**	**97.7**	**92**	**20,150**
25. Cyprus	78.1	97.2	74	21,190
29. Slovenia	75.9	99.6	83	17,130
32. Czech Republic	75.1	-	76	14,720
33. Malta	78.1	92.3	76	13,160
35. Poland	73.6	99.7	88	9,450
38. Hungary	71.5	99.3	82	12,340
39. Slovakia	73.3	100.0	73	11,960
41. Estonia	71.2	99.8	89	10.170
45. Lithuania	72.3	99.6	85	8,470
50. Latvia	70.5	99.8	86	7,730
57. Bulgaria	70.9	98.5	77	6,890
72. Romania	70.5	98.2	68	5,830

(1) Out of 175 countries.
Source: United Nations Human Development Report, 2003.

Although Spain stands to lose the most as it will move from being the largest net recipient of EU funds in absolute terms (€8,400 million in 2002) to a net contributor, Spaniards continue to be very much pro-EU. The latest (March) Elcano barometer showed that 81% have a favourable view compared to 60% 10 years ago.

Between 1989 and 1999 Spain received nearly double the gross amount of funds going to Italy, Germany and Portugal. In the current period (2000-06), Spain is expected to receive €56 billion of structural and cohesion funds (see Table 3). These funds particularly benefit Spain's poorest regions. For example, between 1995 and 2000 the aid that went to Extremadura worked out at €219 per inhabitant (based on the population in 2000). Having had its democracy underwritten by other EU members, it is now Spain's turn to be generous towards the new democracies of Central and Eastern Europe.

Table 3. Gross EU structural and cohesion funds by country, 1989-2006 (millions of euros)

	1989-1993	1994-99	2000-06
Austria	–	1,576	1,831
Belgium	864	2,096	2,038
Denmark	430	843	828
Finland	–-	1,654	2,090
France	6,473	14,939	15,666
Germany	6,431	21,730	29,764
Greece	8,240	15,134	24,883
Ireland	4,755	6,104	3,974
Italy	11,420	21,649	29,656
Luxembourg	77	102	91
Netherlands	814	2,616	3,286
Portugal	9,174	15,041	22,760
Spain	**14,229**	**34,449**	**56,205**
Sweden	–	1,304	2,186
United Kingdom	5,329	12,982	16,596

Source: European Commission.

The government faces a tough fight to maintain a significant level of funds during the 2007-13 budgetary period; the seven richest EU countries believe that the great bulk of structural and cohesion funds should go to the new member states. At present, regions whose per capita GDP is less than 75% of the EU average (known as Objective 1 regions) are granted structural funds (70% of Spain's total in 2000-06). Objective 1 regions in Spain cover 76% of the territory but are home to 58% of the population. The entry of new countries, which are much poorer than the EU-15 members, will sharply reduce the average per capita GDP in the EU. As a result of this 'statistical effect', the only Spanish regions that might still qualify for aid in 2007 are Andalusia and Extremadura and perhaps Galicia. And Spain would also fail to quality for the less important cohesion funds, as by 2007 its national per capita income would surpass the threshold of 90% of the EU average needed to qualify for these funds.

Zapatero might get a more receptive hearing from the EU as one of his foreign policy objectives is to restore good relations with France and Germany, broken by the previous government after it fervently supported the US invasion of Iraq. Mending these broken fences could make these two countries more amenable towards Spain in the carve-up of the funds (it was assumed that had the PP won the March 14 general election France and Germany would have somehow 'punished' Spain). However, this is far from certain, although the government drew comfort from the improved deal it achieved at the end of April regarding the reform of EU subsidies for the cotton, tobacco and olive oil sectors. Spain is the EU's largest producer of olive oil.

Delocation of foreign firms

The two other economic threats to Spain arising from EU enlargement are in the fields of trade and foreign investment. Spain's exports to the accession countries are miniscule and its direct investment almost non-existent (Santander Central Hispano, Spain's largest bank, recently bought PTF, Poland's largest auto financing company). On top of this, several foreign companies in Spain, including Samsung, Phillips, Panasonic, Nissan and Volkswagen, have already begun to delocate some of their activities to the EU accession countries whose labour costs are much cheaper (see Table 4).

Table 4. Selected foreign companies leaving Spain

Company	Current Location	New Location	Workers Affected	Year
Samsung	Barcelona	Slovakia/China	434	2004
Phillips	Barcelona	Poland	100	2004
Hasbro	Valencia	China	515	2003
Lear	Lleida	Poland	1,280	2002
Valeo	Barcelona	Morocco/Tunis	400	2003
Hewlett-Packard	Barcelona	Singapore	200	2002
Autolex	Barcelona	Czech Republic	170	2004

Source: *El País*.

The great bulk of Spanish direct investment continues to go to Latin America. In the latest moves, Banco Bilbao Vizcaya Argentaria (BBVA), Spain's second largest bank, bought the remaining 40.6% of BBVA-Bancomer, the Mexican bank it first took a stake in four years ago, and Telefónica, the telecommunications group, became the world's fourth-largest wireless telephony operator by client numbers after acquiring the US-based BellSouth's operations in Latin America.

Spain is losing ground not so much because of competition from lower-wage countries, but because it maintains declining relative productivity and competitiveness rates that prevent it from shifting towards higher value-added activities and more sophisticated investment (see the Elcano ARI 25/2004 by Pelayo Castro Zuzuárregui and Federico Steinberg, *www.realinstitutoelcano.org/analisis/419.asp*). Wages in the Czech Republic, the new EU member that is attracting the most direct foreign investment, are around one-eighth of Spain's and the tax breaks are much more generous. Its level of R&D spending and the number of years of schooling are also higher (see Table 5). Spain's new government has committed itself to spending more on R&D and education, but to have any lasting effect expenditure will have to be on a sustained basis and over a very long time. Turning around the education sector, as Tony Blair is discovering, is like changing the course of an oil tanker: twists of the steering wheel take a long time to have effect.

Table 5. Wages, schooling and R&D spending (% of GDP)

	Wage (1)	Schooling (years) (1)	R&D Spending (% of GDP) (2)
EU	100.0	9.5	2.0
Spain	73.7	8.1	0.95
Czech Republic	12.4	10.7	1.2
Hungary	12.4	9.5	0.95
Poland	17.2	10.5	0.6

(1) Data refer to the manufacturing sector; wage and schooling data are for 2000 and 1999 respectively.
(2) 2002 figures.
Source: ILO, Eurostat and the European Economy Group.

The trade structure of the some of the accession countries is rapidly changing; this is worrying for Spain as they have moved from exporting traditional manufacturing products to those with a higher technology content, increasingly competing with Spain in these areas (see Table 6). The countries have become more reliant on imports, as one would expect after the removal of trade barriers, but almost all of them have also increased their exports substantially. Hungary has doubled its exports in GDP terms to more than 60% and, even more remarkably, its share of high technology exports surged from zero to 23% of total manufactured exports in just over 10 years. Spain's rose from 7% to 8% over the same period.

Table 6. The structure of trade: Spain and the EU accession and candidate countries

	Imports of Goods and Services (as % of GDP) 1990 2001	Exports of Goods and Services (as % of GDP) 1990 2001	Primary Exports (as % of merchandise exports) 1990 2001	Manufactured Exports (as % of merchandise exports 1990 2001	High-technology Exports (as % of manufactured exports 1990 2001
Spain	**20**	**16**	**24**	**75**	**7**
	31	**30**	**21**	**78**	**8[1]**
Cyprus	57	52	45	55	6
	48	45	47	53	3
Slovenia	-	-	-	-	-
	63[1]	59[1]	10	90	5
Czech Republic	43	45	-	-	-
	74	71	10	89	10
Malta	99	85	4	96	44
	92	88	4	96	62
Poland	22	29	36	59	0
	33	29	19	79	3
Hungary	29	31	35	63	0
	63	60	12	85	23
Slovakia	36	27	-	-	-
	82	74	16	84	4
Estonia	-	-	-	-	-
	94	91	25	75	19
Lithuania	61	52	-	-	-
	56	50	41	58	5
Latvia	49	48	-	-	-
	54	46	40	59	3
Bulgaria	37	33	-	-	-
	63	56	37[1]	57[1]	2[1]
Romania	26	17	26	73	3
	42	34	18	81	6
Turkey	18	13	32	68	1
	31	34	17	82	5[1]

(1) 2000.
Source: United Nations Human Development Report 2003.

A recent report by the International Monetary Fund on Spain (see *www.imf.org/external/pubs/cat/longres.cfm?sk=17295.0*) concluded that EU enlargement represented more opportunities than challenges for Spain. Whether they are seized or not remains to be seen.