

## Inside Spain 47

*William Chislett*

### **Foreign Policy**

#### *Rodríguez Zapatero Sets Out His Foreign Policy Agenda*

Re-elected prime ministers tend to become more personally involved in foreign policy, and judging by the lengthy speech that José Luis Rodríguez Zapatero gave last month, in his case the first of its kind ever, he will not be an exception (see [www.realinstitutoelcano.org/wps/portal/rielcano\\_eng/Content?WCM\\_GLOBAL\\_CONTEXT=/Elcano\\_in/Zonas\\_in/00027](http://www.realinstitutoelcano.org/wps/portal/rielcano_eng/Content?WCM_GLOBAL_CONTEXT=/Elcano_in/Zonas_in/00027)). He said his foreign policy would make 'Spain's name synonymous with solidarity, justice and humanity throughout the world'.

Rodríguez Zapatero, presented by Kofi Annan, the former UN Secretary General, said greater attention would be given to Africa and Asia –with three trips to each continent–. Africa is the source of much of Spain's illegal immigration and Asia is an area where Spain's direct investment is low compared with the significant levels in Latin America and Europe.

He strongly supported the UN General Assembly's resolution, made in 2007 by more than 100 countries, for a universal moratorium on capital punishment and proposed the creation of an international commission to study a moratorium on executions until 2015.

In the field of development aid, Spain would meet its commitment to allocate 0.7% of GDP to official development assistance by 2012, despite the country's fast-slipping economy. Aid doubled to 0.5% of GDP between 2004 and 2008.

Turning to the energy crisis, he said Spain would help foster the creation of an International Agency for Renewable Energy. Several Spanish companies, particularly Iberdrola, are world leaders in renewable energy.

Earlier this month, Rodríguez Zapatero made his fourth visit to Morocco since taking office in 2004 and the first since he was re-elected last March. It was also the first visit to Morocco since the controversial trip to Spain's North African enclaves of Ceuta and Melilla last November by King Juan Carlos, which was angrily attacked by King Mohammed VI. Morocco claims sovereignty over the enclaves and regarded the royal visit as provocative.

#### *Spanish Minister to Make Unprecedented Visit to Gibraltar*

Miguel Ángel Moratinos, Spain's Foreign Minister, will next year become the first Spanish minister to officially visit Gibraltar, a British overseas territory which Spain has claimed for over two centuries. The gesture underscores the greatly improved atmosphere between the three sides since the tripartite forum was established in 2004 to air grievances, although Spain has not renounced its sovereignty claim.

Moratinos accepted an invitation from Peter Caruana, Gibraltar's Chief Minister, to hold the forum's third ministerial meeting in Gibraltar. The second meeting, held in London this month, agreed six new areas for cooperation. They are: the environment, financial services and taxation, judicial, customs and police cooperation, maritime issues, visa related issues and education.

Moratinos is expected to open a branch of the Cervantes Institute, the institution for the learning of Spanish, in Gibraltar next year. The Spanish flag will fly over the building. This would be the first time this has happened on the Rock since 1954 when General Franco closed the Spanish consulate there in a fit of rage over the visit by Queen Elizabeth II.

Direct flights between Spain and Gibraltar were resumed in December 2006, 37 years after General Franco closed the border between Spain and the Rock.

#### *Spaniards See Positive Change in US Foreign Policy Under Next President*

Almost seven out of 10 respondents in Spain, the highest level after France among the 23 countries included in the latest Global Attitudes survey by the Pew Center, believe US foreign policy will change for the better whoever wins this November's US presidential election (see Figure 1).

**Figure 1. New US President Will Change US Foreign Policy for the Better, Selected Countries**

	Change for the better (%)
France	68
<b>Spain</b>	<b>67</b>
Germany	64
UK	53
US	45
China	40
Russia	32

Source: Pew Global Attitudes Survey, 2008.

The proportion of Spaniards with a favourable view of the US declined from 34% in 2007 to 33% this year (see Figure 2). Spain is the only European country whose view of the US declined, albeit marginally, and the only EU nation where a significant share of the population (20%) view the US as the 'enemy' (5% in France and 6% in Germany).

**Figure 2. Favourable Opinions of the US, Selected Countries**

(%)	2002	2003	2004	2005	2006	2007	2008
UK	75	70	58	55	56	51	53
France	63	43	37	43	39	39	42
Germany	61	45	38	41	37	30	31
<b>Spain</b>	–	<b>38</b>	–	<b>41</b>	<b>23</b>	<b>34</b>	<b>33</b>
Russia	61	36	47	52	43	41	46
Indonesia	61	15	-	38	30	29	37
Egypt	–	–	–	–	30	21	22
Pakistan	10	13	21	23	27	15	19
Jordan	25	1	5	21	15	20	19
Turkey	30	15	30	23	12	9	12
Nigeria	–	61	–	–	62	70	64
Japan	77	–	–	–	63	61	50
India	–	–	–	71	56	59	66
China	–	–	–	42	47	34	41

Source: Pew Global Attitudes Project, 2008.

Unlike in the 2004 US presidential election when he openly endorsed the Democrat John Kerry, this time José Luis Rodríguez Zapatero, the Prime Minister, is being more cautious about publicly supporting either the Democrat Barack Obama or the Republican John McCain, although he privately hopes Obama will win. Support for Obama among Spaniards (72%) is more than three times higher than that for McCain (19%), the largest gap between the two presidential candidates after Turkey.

There is also a significant gap between Spaniards' view of the US (essentially its foreign policy) and that of Americans (41% favourable). The main reason for the US's poor image abroad is the Iraq war. Rodríguez Zapatero pulled Spain's peace-keeping troops, sent by the previous Popular Party government, out of Iraq soon after first taking office in 2004. Only Turkey and Jordan (both with 89%) have less confidence in Bush than Spain (88%).

Nevertheless, Spaniards are more optimistic about Iraq's future than two years ago, although only 25% of respondents (18% in 2006) believe a democratic and stable government will be established in the country (optimism fell by 12 percentage points in the UK, which is hardly surprising since more than 100 British combat soldiers have been killed in Iraq).

In Afghanistan, where 800 Spanish peace-keeping troops are stationed, 56% of respondents said these soldiers should be brought home. Rodríguez Zapatero's decision to pull the troops out of Iraq (made long before he won the 2004 election) enjoyed overwhelming support, but this is not the case for his decision to boost Spain's peace-keeping presence in Afghanistan.

## **Domestic Scene**

### *Basque Parliament Backs Autonomy Referendum*

The Basque parliament approved by just one vote the decision of its government to hold a referendum in October on ties with the rest of Spain and seeking an end to the decades-long conflict with the terrorist organisation ETA. José Luis Rodríguez Zapatero, the Prime Minister, said the move was unconstitutional as it had not been approved by the central government.

Juan José Ibarretxe, the Basque Premier and head of the Basque Nationalist Party, has long pressed for a referendum on what he calls 'the right to decide and live together in peace'. If the two questions proposed by Ibarretxe are approved the next step would be to hold another referendum in 2010 on the Basque Country's place within the Spanish state and thereby open the door to independence, as ETA has been fighting for. The region already enjoys the highest degree of autonomy of all Spain's 17 regions and one of the highest in Europe. Only 22% of respondents in a survey carried out by the Basque government want independence, the lowest level since 2001.

The one vote that enabled the referendum idea to be approved by a simple majority of the Basque parliament came from the pro-ETA Communist Party of the Basque Lands (PCTV), which is a continuation of the outlawed Batasuna party and has eight seats in the regional parliament. The PCTV was banned from taking part in last March's general election. The 33 Socialist and Popular Party (PP) members of the parliament voted against the proposal.

Ibarretxe is expected to call an early election in the Basque Country after the referendum is officially declared illegal. In the general election, the non-nationalist parties (essentially the Socialists and the PP) won 57.5% of the votes cast in the Basque Country, up from 46.1% in 2004, and the nationalist parties 38.8% (51.5% in 2004).

Rodríguez Zapatero sought a peace deal with ETA during his last government, but called off talks when ETA bombed Madrid airport in December 2006, killing two people.

The central government has ruled out the use of force to prevent the referendum going ahead. One option open to it but unlikely to be taken up would be to suspend the Basque autonomy statute, as Tony Blair, the former UK Prime Minister, did in 2002 when he temporarily suspended the devolved Northern Ireland government.

#### *Government to Encourage Repatriation of Jobless Immigrants*

Legally resident and unemployed non-EU immigrants will be offered part of their jobless entitlement in the form of a lump sum if they agree to give up their residence and work permits and return to their home country. The proposed reform is aimed at easing the impact on Spain's labour market of mounting unemployment as a result of the sharp downturn in the economy.

The scheme, announced by Celestino Corbacho, the Labour and Immigration Minister, represents a significant turnaround in the policy of hiring workers in their country of origin and underscores the government's growing concern at the economic and social impact of large numbers of unemployed immigrants.

Workers will receive a substantial part of their unemployment benefit once they voluntarily renounce their residency and work permits and agree not to return to Spain for the following three years. The rest of their entitlement will be paid when they are back in their country of origin. Workers who want to return to Spain after five years will be given priority in the hirings made in their country of origin and will automatically recover their previous residency status.

The economy is expected to grow this year at around half last year's pace of 3.8%. Most of the job losses are occurring in the construction sector, one of the engines of Spain's boom and now very much in the doldrums, and mainly among immigrants. It is officially estimated that 15% of the immigrant community's labour force is unemployed, compared with a national jobless average approaching 10%. Only jobless immigrants who have paid their social security will benefit from the scheme: it is estimated that up to 800,000 immigrants are working illegally (the difference between the 2.8 million foreigners registered in the work force and the 2 million foreigners paying social security).

The government also intends to restrict which family members can come to Spain as a result of relatives being legally in the country. This could mean that only children under the age of 18 would have an automatic right to join their parents and not the children's paternal and maternal grandparents. Between January 2005 and April 2008, 252,722 members of immigrants' families were granted permits to live in Spain.

Meanwhile, immigrants from Africa continued to arrive illegally by boat in tragic circumstances. In one particularly dramatic incident, 15 immigrants out of a total of 48 on a boat, including nine children under the age of four, died before they could reach the coast of Almería. More than half (53%) of respondents in a survey conducted by Metroscopia said the government should be tougher with illegal immigration.

The more than 4 million foreigners (EU and non-EU) who have arrived in Spain in the last decade make a substantially positive contribution to the country's welfare state –in the form of taxes and social security contributions– but there are growing inadequacies in parts of the public healthcare and education systems as a result of mounting pressure from the increased demand for these services. As of September the regional government of Catalonia will begin to segregate the children of immigrants from non-EU countries, primarily African, and put them in special schools so that they can better integrate at a later stage into the normal education system.

Spain's population increased by 860,000 in 2007 and foreigners accounted for 11.3% of the total population of just over 46 million (see Figure 3). The rise in the population last year was double that in 2006. The number of Spaniards grew by 0.4% in 2007 and the foreign population by 15%. Of the 491,183 babies born in Spain last year, 92,992 of them had a foreign mother (one in every five). The influx of immigrants has begun to push up Spain's fertility rate but at 1.39 children (1.38 in 2006) it is still one of the lowest in the EU-27.

**Figure 3. Spain's Population and Foreigners' Share, 2000-08**

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Population (million)	40.5	41.1	41.8	42.7	43.2	44.1	44.7	45.2	46.06
Foreigners' share (%)	2.3	3.3	4.7	6.2	7.0	8.4	9.3	10.0	11.3

Note: the figures at 1 January of each year are based on those registered with local town halls. Foreigners have an incentive to do this as it entitles them to public health care and education, although not everyone does so.  
Source: INE (National Statistics Office).

The largest number of foreigners now come from Rumania, followed by Morocco and Ecuador (see Figure 4). Although Rumania joined the EU in 2007, thereby enabling its citizens to move freely within the Union, they do not yet have an automatic right to work in Spain and are treated in this respect like non-EU citizens. Many of them are working illegally. Meanwhile, the number of Ecuadoreans has fallen, suggesting that some of them have returned to their country.

**Figure 4. Foreigners by Main Countries (1)**

Country	2007	2008
Rumania	527,019	728,967
Morocco	582,923	644,688
Ecuador	427,099	420,110
UK	314,951	351,919
Colombia	261,542	280,705
Bolivia	200,496	239,942
Germany	164,405	180,650
Italy	135,108	157,435
Bulgaria	122,057	153,664
Argentina	141,159	145,315

(1) At 1 January of each year.

Source: INE.

### *Rajoy Remains Leader of the Popular Party*

Mariano Rajoy was re-elected leader of the conservative Popular Party (PP) at its congress, but with a smaller share of the votes than in 2004. He won 84.2% of the vote compared with 98.4% in 2004.

Rajoy also succeeded in remoulding the party's centrist image, appointing María Dolores de Cospedal, a state lawyer, as the party's Secretary General (the second in the hierarchy). She is a divorced mother with a child by *in vitro* fertilisation, a situation not to the liking of the ultra-conservative hierarchy of the Catholic Church in Spain which has aggressively campaigned along with some prominent PP members in favour of what it calls family values.

The PP's spokesperson in parliament, Soraya Sáenz de Santamaría, is also a woman. The PP seems to have fallen into line with the increased feminisation of Spanish politics –nine of the 17 ministers in the Socialist government are women and in the previous Socialist government half of the ministers were (2004-08)–.

The only prominent person from the era of José María Aznar (the PP Prime Minister between 1996 and 2004) still in the party's front line is Javier Arenas, who is in charge of the PP's regional organisation.

The main loser in the congress is Esperanza Aguirre, the Premier of the Madrid regional government, who openly criticised Rajoy's leadership after he lost the general election last March for the second time, while Alberto Ruiz-Gallardón, the Mayor of Madrid, who has often been at loggerheads with Aguirre, entered the party's steering committee for the first time. This puts him in a good position in the event that Rajoy is not the party's candidate in the 2012 general election.

### *Police Seize Russian Mafia Gang*

Spanish police arrested 20 Russians suspected of involvement in a large organised crime and money-laundering gang known as Tambov. Some €12 million in bank accounts was frozen and 23 luxury cars, a yacht, weapons and pieces of art were seized.

The operation, known as Troika, was the culmination of a two-year investigation. It involved Russian, US, German and Swiss law enforcement bodies and around 400 law enforcement officers. Police found more than 500 bank accounts and hundreds of bogus companies which are believed to have been used to launder money in Switzerland and Panama. The 20 were detained in Madrid, Barcelona, Malaga, Valencia and the Balearic Islands.

### *And Arrest Socialist Mayor on Corruption Charges*

Antonio Barrientos, the Socialist mayor of Estepona on the Costa del Sol, and 24 other people including town councillors and businessmen were arrested on corruption and money-laundering charges related to the construction sector. The Socialist party immediately expelled the mayor from the party and other card-carrying members involved in this latest case of corruption.

Several of the people detained are related to another corruption case in nearby Marbella, the fiefdom of its former mayor, Jesús Gil y Gil, who died in 2004 (see [Inside Spain, Newsletter 23](#), 6 April 2006). This operation led to the arrest in 2006 of the mayor, two former mayors and dozens of city officials after the authorities learnt that 30,000 homes had been built illegally –including 1,600 on parkland–.

In 2003, the Socialist leadership approved an alliance between the local party in Estepona and a faction of GIL, the party formed by Gil y Gil.

Under anti-corruption measures approved in the Land Law in May 2007, mayors and town councillors are obliged to publicly declare their assets. However, this has still not happened because a municipal statute enforcing the reform has yet to be approved. The number of corruption cases in town-planning and land regulations reported or under investigation increased from 2,016 in 2004 to 3,846 in 2006, according to the *Fiscalia General del Estado* (Attorney General's Office).

In another case, the anti-corruption prosecutor charged José Luis Martín, the Socialist mayor of Seseña between 1999 and 2003, of having enriched himself illegally after granting permission to the developer Francisco Hernando to build 13,500 homes in the town. Martín is accused of corrupt practices and bribery. Seseña has become the symbol of Spain's construction excesses as only 2,500 homes have been completed. The go-ahead was given despite the lack of sufficient water for the homes. The prosecutor has asked Martín to justify the provenance of €672,000.

## **The Economy**

### *Economy Heads Towards Stagflation*

The economy continued to slow down and inflation to rise, generating fears of stagflation.

Pedro Solbes, the Economy Minister, said quarter-on-quarter GDP growth in the second quarter was below the first quarter's 0.3% and for the whole year growth would be less than 2%. The annual rate of inflation was 5% in June (2.4% in the same month of 2007) and the number of unemployed rose that month for the first time since Spain's last recession in 1993. Miguel Sebastián, the Industry Minister, said the economy was 'almost in recession'.

Having created 40% of jobs in the Euro zone in the 15 years up to 2007, Spain's unemployment rate is now rising at the fastest pace. The OECD forecast a jobless rate of close to 10% by the end of the year (see Figure 5). Gerardo Díaz Ferrán, the head of the Spanish Confederation of Employers' Organisations (CEOE) gave a dire warning that 1.5 million jobs would be lost over the next 12 months, making the unemployment rate much higher. He said the government's measures to stimulate the economy were 'insufficient and timid'. These include more public works, schemes to retrain people who lose their jobs, particularly in the construction sector (previously the economy's motor and now pulling it down) and the return to every taxpayer of €400.

**Figure 5. Unemployment in Selected OECD Countries (% of labour force and millions)**

	1995-2005 average (%)	Millions	2008 (%)	2009 (%)	2008 (millions)	2009 (millions)
France	9.3	2.5	7.5	7.6	2.1	2.1
Germany	8.7	3.7	7.4	7.4	3.2	3.2
Italy	9.9	2.3	6.2	6.5	1.5	1.6
<b>Spain</b>	<b>12.6</b>	<b>2.3</b>	<b>9.7</b>	<b>10.7</b>	<b>2.2</b>	<b>2.5</b>
UK	6.0	1.7	5.5	5.8	1.7	1.8
OECD Europe	8.4	15.0	6.8	7.0	13.0	13.5

Source: OECD Employment Outlook.

The government has limited leeway to stem the economy's haemorrhaging; it has no control over interest rates (set by the European Central Bank), international finance or commodity prices. The €400 that is being returned to taxpayers (a pledge by the Socialists ahead of last March's general election) is pumping €6 billion into consumers' pockets, but this is being quickly swallowed up in higher mortgage payments and soaring petrol and food prices.

Employers, predictably, want the government to lower the corporate tax rate and their social security contributions and make the firing end of the labour market more flexible, but none of this is likely to happen.

Last year's general government budget surplus (2.2% of GDP) is fast disappearing and Solbes promises only 'almost balanced' accounts this year. Thanks to persistent investigations by the Tax Agency into the fraudulent use of €500 notes, widely used in Spain in black money operations in the construction sector, the state's depleted coffers will receive a boost. A total of 2,511 people are said to have not declared a sum estimated at more than €1.25 billion.

Rodríguez Zapatero has vowed not to cut social protection spending; indeed, it will rise because of the sharp rise in the number of people entitled to unemployment benefits. Spain's expenditure in this area, at 20.8% of GDP (in 2005, according to the latest comparative figures), is still well below the EU-27 average (27.2%, see Figure 7).

**Figure 7. Social Protection Spending in Selected EU-27 Countries**

	% of GDP
Sweden	32.0
France	31.5
Belgium	29.7
Germany	29.4
EU-27	27.2
UK	26.8
Italy	26.4
<b>Spain</b>	<b>20.8</b>
Ireland	18.2
Estonia	12.5

Source: Eurostat.

The domestic and international economic woes are taking their toll on the Madrid stock market, which so far this year has been one of the worst performers (see Figure 8). And the housing slump claimed its first big victim when Martinsa Fadesa filed for administration after failing to raise funds and meet debt payments. It is the biggest corporate failure in Spain's history. The company has debts of €5.4 billion and will start to sell assets to repay creditors.



**Figure 8. Stock Market Indices (1)**

Index	% change
Dax (Frankfurt)	-24.6
<b>Ibex-35 (Spain)</b>	<b>-26.5</b>
Dow Jones	-17.3
Euro Stoxx 50	-28.5
FTSE 100 (London)	-19.9
Nikkei (Tokyo)	-16.6

(1) Between 1 January and 15 July 2008.

Source: Markets.

### *Foreign Direct Investment Surges*

Gross foreign direct investment (FDI) in Spain almost doubled in 2007 to US\$53.4 billion, largely because of the joint US\$66 billion acquisition by Italy's Enel and Spain's Acciona of the power company Endesa, according to the Organisation for Economic Co-operation and Development (OECD). Enel controls around 67% of Endesa. Spain's FDI inflow was larger than Germany's and Italy's.

Little investment, however, was in new projects (Greenfield), the primary target of a host nation's promotional efforts because they create new production capacity and jobs and transfer technology and know-how.

According to Ernst & Young's European Attractiveness Survey, Spain captured 256 projects in 2007, the fourth-largest number in Europe and 21% more than in 2006.

Spain's direct investment abroad was 19.3% higher at US\$119.6 billion, continuing the country's net outward investment trend (see Figure 9).

**Figure 9. Foreign Direct Investment, 2007**

(US\$ billion)	Inflows	Outflows	Net outward investment
France	158.0	224.6	+66.6
Germany	50.9	167.5	+116.6
Italy	40.2	90.8	+50.6
<b>Spain</b>	<b>53.4</b>	<b>119.6</b>	<b>+66.2</b>
UK	186.0	229.9	+43.9

Source: OECD.

A survey by Manpower, one of the world's largest recruitment companies, put Spain as the third most preferred destination for work and seventh for recruiting foreign talent (see Figure 10).

**Figure 10. Top 10 Preferred Destinations for Work and for Recruiting Foreign Talent**

For Work	Foreign Talent
1. US	1. China
2. UK	2. US
<b>3. Spain</b>	3. India
4. Canada	4. UK
5. Australia	5. Germany
6. United Arab Emirates	6. Japan
7. France	<b>7. Spain</b>
8. Italy	8. France
9. Germany	9. Canada
10. Argentina	10. Poland

Source: Manpower.

### *Santander Agrees to Buy Another UK Bank*

Santander, Spain's biggest bank and the world's seventh-largest by market capitalisation, added to its acquisition in 2004 of the UK bank Abbey by agreeing to pay €1.57 billion for the beleaguered mortgage bank Alliance & Leicester. The deal gives Santander 250 more branches.

Santander got a cut-price deal. Had Alliance & Leicester not haggled over the price last December, Santander may have had to pay twice as much. Since then Alliance & Leicester's shares have tumbled.

The acquisition underscores Santander's strong financial position –it has not been touched by the international banking crisis– and the continued boldness of its chairman, Emilio Botín, who proclaimed that 'in times of crisis, being better than others is a big advantage'.

There was speculation that other banks might challenge Santander and seek to outbid the bank.

### *Spain Overtakes Italy in Per Capita Income*

Italian pride suffered a double blow in the space of 24 hours when Spain beat it at football in the Euro 2008 quarter finals (and then went on to win the cup) and Eurostat, the EU's statistical office, announced that Spain's per capita income was definitely higher than Italy's.

Spain's per capita GDP in 2007 was 107% of the EU-27 average, compared with Italy's 101% (see Figure 11). Earlier this year, IMF figures continued to put Italy above Spain and corrected Eurostat's calculations made in 2007. Spain's economy has been growing much faster than Italy's for more than a decade and also its population. Despite the surge in its population, Spain still overtook Italy.

**Figure 11. GDP per Inhabitant of Selected EU Countries in Purchasing Power Standards**

	GDP per inhabitant
Luxembourg	276
UK	116
Germany	113
France	111
<b>Spain</b>	<b>107</b>
Italy	101
EU-27	100
Bulgaria	38

Source: Eurostat.

### *Growth in High Net Worth Individuals Slows Down*

The number of Spaniards with net assets of at least US\$1 million, excluding their primary residence and consumables, rose by 4% in 2007 to 164,000, the smallest increase since 2002, according to the latest World Wealth Report issued by Merrill Lynch and Capgemini (see Figure 12).

**Figure 12. Number of Rich Spaniards, 2002-07**

	2002	2003	2004	2005	2006	2007
Nr of rich Spaniards	110,000	129,000	141,000	148,000	157,000	164,000

Source: Merrill Lynch and Capgemini.