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The pain in Spain: political, social and foreign policy implications of the European economic crisis

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Major economic problems and outlook for 2012-13[1]

The global financial and economic crisis has exposed serious weaknesses in the performance of the Spanish economy. During the years 1995-2007, Spain recorded a long period of strong growth which was partly based on a credit-driven domestic demand boom resulting from the creation of the Euro. Very low real interest rates triggered the accumulation of high domestic and external imbalances as well as an unprecedented real estate bubble. (At its peak in 2007, the construction sector accounted for 16 percent of GDP and 12 percent of Spanish jobs). The sharp correction of that boom as of 2008 in the context of the international financial crisis has led to a double-dip recession and a spectacular increase in unemployment, which has tripled in five years (from 8 percent in 2007 to 24 percent in 2012). Youth unemployment (those aged 16 to 24) reached a staggering 51 percent in mid-2012 (though this figure does not take into account those who are studying and others not actively seeking work). In turn, this has led to a spectacular increase in unemployment benefit payments, which partly explains why Spain's public debt will rise from 69 percent of GDP in 2011 to an anticipated 85 percent by the end of 2012.

The unwinding of these economic imbalances is weighing heavily on Spain's growth outlook. Private sector deleveraging implies subdued domestic demand in the medium term. Furthermore, sizeable external financing needs have increased the vulnerability of the Spanish economy. A shift to durable current account surpluses will be required to reduce external debt to a sustainable level. Public debt is increasing rapidly due to persistently high general government deficits since the beginning of the crisis, combined with the shift to a much less tax-rich growth pattern.

The challenges facing large segments of the banking sector continue to bear negatively on the economy as the credit flow remains constrained. In particular, unhealthy exposure to the real estate and construction sectors have eroded investor and consumer confidence. As the linkages between the banking sector and the sovereign have increased, a negative feedback loop has emerged. Consequently, the restructuring and recapitalization of banks is the key to mitigating these linkages, increasing confidence, and spurring economic growth.

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The new Spanish government, which came to office in December 2011, has initiated numerous reforms in an attempt to deal with the crisis. With regard to the banking system, provisions and capital requirements have been raised, independent valuations have been commissioned, and the country's fourth largest bank (Bankia) is being restructured. In order to implement these measures, in June 2012 the government finally requested a bailout loan for vulnerable banks; the EU subsequently agreed to make a maximum of €100 billion available to the Spanish authorities, of which only €40 billion may finally be required.

On the fiscal front, two major reform packages were announced by the Spanish government, in December 2011 and July 2012. Tax increases (above all, VAT) and spending cuts amounting to €80 billion (over the period 2012-13) were adopted to reduce the budget deficit, and new budget stability and transparency laws seeking to ensure greater accountability and control over regional finances are being implemented.

The most controversial measure adopted by the new government was undoubtedly its February 2012 labor reform, which made it easier and cheaper to fire workers, including those employed in the public sector. The government is also seeking to restrict access to early and partial retirement, and to accelerate the raising of the legal retirement age from 65 to 67, already contemplated in the 2011 pension reform adopted by its Socialist predecessor. Furthermore, the executive has introduced a number of liberalizing measures aimed at stimulating domestic consumption; for example, supermarkets will be free to determine their opening hours. Plans are also underway for further, potentially far-reaching reforms, such as the liberalization of railway transport.

Overall, these reforms could lead to a significantly better medium-term outlook.[2] In the meantime, however, the Spanish economy is still in the midst of an unprecedented double-dip recession, the deleveraging process will be painful, and it will take time to digest the implosion of the biggest real estate bubble in the country's history. After growing a very modest 0.4 percent of GDP in 2011, the current IMF estimate is that the Spanish economy will shrink by 1.7 percent of GDP in 2012 and by a further 1.2 percent in 2013. This will make it difficult (if not impossible) for the government, which inherited a budget deficit of 8.9 percent of GDP in late 2011, to meet its current deficit targets of 6.3 percent in 2012, 4.5 percent in 2013 and 2.8 percent in 2014.

Spain's economic outlook 2012 remained uncertain in late 2012. On 25 July, ten-year government bond yields reached a record 7.75 percent, prompting frenzied speculation of an EU bailout. The European Central Bank responded in early September by announcing that it would buy unlimited amounts of Spanish bonds if the government applied for help from the Euro zone rescue fund, bringing yields down below 6 percent for the first time since April. The Spanish authorities, however, were in no hurry to submit an application. One reason for this was the widely-held view that it is virtually impossible for a government to survive the political fallout resulting from a bailout. Additionally, there was serious concern about the impact this would have on Spain's long-term reputation and credibility. Most importantly, perhaps, it was widely feared that a bailout would entail further austerity measures requiring additional painful budget cuts that could well prove

[2] For a more detailed account, see Charles Powell and Federico Steinberg, 'The pain in Spain: light at the end of the tunnel?', in *International Spectator. Italian Journal of International Affairs*, Vol. 47, 4, December 2012, available at:
http://www.realinstitutoelcano.org/wps/portal/rielcano_eng/Content?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/zonas_in/international+economy/powell-steinberg_pain_spain_crisis_europe

counterproductive. In spite of its surprisingly successful delaying tactics, it is generally assumed that the government will be forced to request the ECB to start purchasing Spanish debt in the secondary markets in the course of 2013.

In the longer term, a determined effort at the European level, aimed at improving the incomplete governance structure of the Euro, will be essential to ensure that the reforms and adjustments implemented in Spain (and in other southern European countries) are effective. This effort should include a full banking union, a more dynamic European Central Bank (capable of acting consistently as a lender of last resort), and some form of limited debt mutualization.

The political and social consequences of the crisis

The financial and economic crisis starting in 2008 was largely responsible for Prime Minister José Luis Rodríguez Zapatero's decision to bring forward the general election due in March 2012, which was finally held in November 2011. This did not prevent the incumbent Socialist party (PSOE) from being soundly defeated by its major national rival, the centre-right Popular Party (PP), led by Mariano Rajoy. Zapatero's decision not to lead his party into a third election, and his replacement by his deputy, Alfredo Pérez Rubalcaba, did not have much impact on the final result.

With only 28 percent of the vote and 110 out of 350 seats in the Congress of Deputies, this was the PSOE's worst result since democracy was restored in 1977. The PP, on the other hand, won 44 percent of the vote and 186 seats, ten more than it needed to secure an absolute majority (176) in the Spanish lower house, its best result ever. Other than the PP, the main beneficiaries of the PSOE's poor performance were Izquierda Unida (IU), a left-wing coalition which attracted 7 percent of the vote and won 11 seats (up from 2 seats in 2008); the major Catalan nationalist party, Convergencia i Uniò (CiU), which won 4 percent of the vote and 16 seats; and a relatively new centrist party, Unión Progreso y Democracia (UPyD), which received 5 percent of the vote and 5 seats (four more than in 2008). At 71 percent, voter turn-out was relatively low by Spanish standards, an outcome that is largely attributable to the attitude of many former PSOE supporters, who expressed their dissatisfaction with Zapatero's economic policy by staying at home.

In short, Prime Minister Rajoy came to office in December 2011 with considerable popular support. Whether or not he also enjoyed a clear mandate from the Spanish people is debatable, particularly given his reluctance to provide details as to his economic programme during the election campaign.

The government's comfortable parliamentary majority has made it reluctant to seek the support of other parties, most notably the PSOE, even when it comes to approving highly controversial measures and implementing structural reforms. Some analysts have claimed that, given the magnitude of the economic crisis, the two major parties (which jointly account for 72 percent of the vote and 290 out of 350 parliamentary seats) should try to reach a broad consensus on major policies, and in particular, on the major reforms that the EU expects Spain to implement in order to meet its obligations as a Euro zone member. Others, however, believe it preferable for a recently-elected government that enjoys a comfortable parliamentary majority not to seek to share responsibility with other parties, since this would deprive the electorate of a viable alternative should its policies prove unsuccessful.

To complicate matters further, the major opposition party is experiencing significant difficulties of its own. This is not entirely surprising, given the magnitude of the defeat it suffered in the recent general election. Inevitably, Rubalcaba, who was elected party leader in February 2012, is tainted by his former association with Zapatero, whom many voters hold at least partly responsible for the depth of the current crisis. In spite of these difficulties, the PSOE did surprisingly well in the March 2012 regional elections in Andalusia; although it narrowly lost them for the first time in thirty years (with 39 percent of the vote, slightly below the PP's 40 percent), it was able to remain in office thanks to the parliamentary support provided by IU. In the regional elections held in Asturias on the same day, both the PSOE and IU did significantly better than they had done in the 2011 general election. However, the Socialists did not fare well in the regional elections held in the Basque Country and Galicia in October 2012; in the latter, the PP was able to attract an impressive 45 percent of the vote, while the PSOE came a very distant second, with only 20 percent of the ballots cast.

As was to be expected, the government's popularity has suffered significantly in the course of 2012 as a result of the tough measures it has been forced to adopt. Surprisingly, however, the PSOE's standing in the polls has also declined during these months. Although popular confidence in politicians' ability to deal with the crisis is at an all time low, there is no serious discussion in Spain of the need for a technocratic government -such as that of Mario Monti in Italy- to replace the existing one.[3]

Overall, the economic crisis has further undermined public trust in Spain's major political institutions, which were already facing considerable criticism before 2008.[4] What is new about the current situation is that, for the first time in recent democratic history, numerous opinion polls suggest that it is the political elites themselves that are bringing the system into disrepute.[5]

It is not only politicians who are increasingly out of favor with the general public, however. The untoward behaviour of the president of the Supreme Court, who was forced to resign in June 2012 after a month-long scandal concerning his use of public funds, brought public support for the judiciary, which was not very strong to begin with, down to an all-time low.[6] Furthermore, this incident served to highlight the lack of transparency and accountability with which the governing council of the judiciary (*Consejo General del*

[3] According to a major poll carried out the by the state-funded Centro de Investigaciones Sociológicas (CIS) in July 2012, the PP enjoyed the support of 36 percent of the electorate, still comfortably ahead of the PSOE's 29 percent. Although 56 percent of those polled judged the government's performance to be poor or very poor, a slightly higher proportion, 57 percent, claimed the same could said of the PSOE's role in opposition. See CIS, Estudio nº 2951, available at: http://datos.cis.es/pdf/Es2951mar_A.pdf

[4] The Fundación Alternativas produces an annual report in which the quality of Spanish democracy is graded out of ten; in recent years, this has dropped from 6.2 in 2008 to 5.8 in 2012. For the latest report, see: http://www.falternativas.org/laboratorio/libros-e-informes/ide/report-on-democracy-in-spain-2011-english-version. However, in its 2011 report, the Global Democracy Ranking, which aims to compare the quality of democracy worldwide, ranked Spain in 16th place, ahead of France (17th), Portugal (18th), Italy (27th) and Greece (32nd). See: http://www.democracyranking.org/en/Democracy-Ranking_2011-Scores+Dimensions.htm

[5] According to the CIS study quoted above, 11 percent of respondents spontaneously mentioned politicians and political parties as their first answer to the question: "What, in your opinion, is the major problem currently facing Spain?" If those mentioning politicians and political parties as their second or third answer are added, some 25 percent of respondents may be said to share this concern.

[6] According to a poll published in July 2012, 69 percent of Spaniards believe the justice system functions poorly or very poorly. See José Manuel Toharia, 'El desprestigio viene de arriba', *El País*, 12 August 2012, available at: http://politica.elpais.com/politica/2012/08/11/actualidad/1344684017_186742.html

Poder Judicial) had traditionally conducted its business, raising fresh doubts about its political independence and overall credibility.

The crisis has also affected the monarchy. In the past, the popularity of the king and the institution he embodies increased in times of crisis, presumably because they were perceived as being above the political fray.[7] The current economic crisis, however, has led to unprecedented levels of public and private criticism of the royal family and its life-style. This became a serious political issue as a result of the accident suffered by King Juan Carlos during a hunting trip to Botswana in April 2012, which later resulted in a hip operation. Although the king publicly apologised for his behaviour, many Spaniards obviously disapproved of him going on expensive holidays at a time when his countrymen were suffering the consequences of recession and unemployment. Furthermore, this came at a time when his son-in-law was under investigation for tax fraud and embezzlement of public funds.

Politicians, however, have attracted the lion's share of the blame for the current crisis. Citizens blame them, whatever their ideology, for their poor handling of the crisis, for not having regulated the financial sector adequately, for undermining the credibility of hitherto highly-respected institutions such as the Bank of Spain, for politicizing the management of savings banks (*cajas de ahorro*), which were traditionally held in high esteem by the population at large, and for a housing boom which is partly attributed to corrupt practices at the local government level.

Partly due to the central government's difficulties in curbing public spending, some citizens are also increasingly blaming the crisis on the unexpected (and unwanted) consequences of political devolution. In some quarters, the existence of seventeen autonomous communities is increasingly being seen as an expensive luxury that Spain can no longer afford (assuming it ever could). It has thus become commonplace to accuse politicians at the regional and municipal levels of spending well beyond their means in their never-ending efforts to curry favour with voters. This type of criticism, which naturally feeds on the numerous corruption scandals involving local and regional politicians that have dominated the headlines in recent years, is of course most widespread in those regions and sectors of society in which support for political devolution was never particularly strong in the first place. The novelty, however, is that serious analysts and practitioners are increasingly concerned about the seemingly dysfunctional nature of Spain's semi-federal system of government.

Predictably, the crisis has also fuelled centre-periphery tensions, which were already quite significant to begin with. The fact that the PP is currently in office in 12 out of Spain's 17 autonomous communities means the central government is in a reasonably good position to enforce its austerity programme in these regions, though unpopular reforms have sometimes caused friction amongst members of the same party. The main challenge, however, resides in Catalonia, where the CiU (conservative nationalist) government had long been seeking a new 'fiscal pact' with Madrid comparable to those already enjoyed by the Basque Country and Navarre. Although the CiU government's overall economic philosophy was not unlike that of the central government, this did not hinder it from

[7] Nevertheless, support for the Monarchy has declined significantly in recent years. In 2007, Spaniards favouring the Monarchy (69 percent) easily outnumbered those who preferred a Republic (22 percent); by 2011, the figures were 49 percent and 37 percent, respectively. According to the CIS, which has measured the public standing of major Spanish institutions since 1994, by October 2011 trust in the Crown had dropped to an all-time low of 4.89 out of 10.

accusing Madrid of placing an intolerable burden on its finances, a complaint which resonated well with many Catalan voters. With an economy the size of Portugal's, Catalonia had the largest debt burden of any Spanish region (€41.8 billion), but the regional government claimed this was largely because it received €18 billion less *per annum* than it paid back into the central government's coffers. Whatever the case, in August 2012 the Catalan government was finally forced to request a €5 billion bailout from Madrid; a month later, Rajoy's refusal to negotiate a new 'fiscal pact' prompted the Catalan government to call early elections for 25 November, which it immediately set out to transform into a *de facto* plebiscite on the right to national self-determination. Although the elections confirmed its status as Catalonia's largest party after it won 30 percent of the vote and 50 seats in the regional parliament, CiU's failure to secure an absolute majority and the loss of 12 seats were seen as a major setback for its leader, Artur Mas. However, this result only briefly succeeded in putting fears of a Catalan secession to rest; having obtained the parliamentary support of ERC, a radical pro-independence party, the new regional government lost no time in announcing that it would hold a referendum on Catalonia's independence no later than 2014. Given that neither the Spanish Constitution of 1978 nor the Catalan statute of Autonomy (revised in 2006) allow for a referendum of this nature, relations between the Barcelona and Madrid governments will presumably remain fraught in the foreseeable future.

As was to be expected, the government's austerity measures have also placed it on a collision course with the major Spanish trade union organizations, UGT and CCOO. In March and again in November 2012, these and other labor organizations staged one-day general strikes in protest against the executive's austerity programme, and in particular, its labor market reforms, which went ahead nevertheless. Since coming to office, Rajoy has been extremely reluctant to meet UGT and CCOO leaders, let alone engage in serious discussion of his policies with them. For their part, trade union leaders have questioned the government's right to adopt far-reaching reforms on the strength of its parliamentary majority alone, and have even called for a referendum on its more controversial policies.

Spain's financial and economic difficulties also partly account for the emergence of the so-called '15-M movement', which derives its name from the fact that it staged its first protests on the eve of the local and regional elections held on 22 May 2011. The so-called 'indignados' embraced a wide variety of causes and demands, ranging from immediate ones such as the expropriation of unoccupied housing for the benefit of those who had lost their homes after failing to repay their mortgages, to more general issues concerning the fight against political corruption or the allegedly unrepresentative nature of existing political parties. Surprisingly, however, although social conditions have deteriorated further since it first made its appearance, the '15-M movement' appears to have lost momentum in the course of 2012. To some extent, this reflects specific tactical dilemmas: for instance, having lambasted trade unionists for being an integral part of the political establishment they hold responsible for many of Spain's ills, they were understandably ambivalent about taking part in union-sponsored strikes against the Rajoy government. Additionally, some 'indignado' gatherings have become a pretext for acts of violence involving anti-system groups, particularly in Barcelona. Although polls suggest that many of the movement's goals and demands remain broadly popular with public opinion at large, it is doubtful whether it will have a long-term impact on Spanish political and social life.

The impact of the crisis on foreign policy

The current economic crisis is having a significant impact on Spanish foreign policy in at least three ways. Firstly, it appears to be undermining Spain's international reputation and credibility: the country that was once seen as one of the great success stories of the second half of the 20th century has come to be perceived as the 'sick man of Europe'. More specifically, by seeking assistance from abroad in order to deal with its own economic difficulties, its leaders are acknowledging that they are no longer in a position to govern effectively by themselves. Secondly, overcoming the crisis and its consequences is quite understandably the government's top priority; policy initiatives that do not bear directly on this goal will not receive much attention from the executive in the coming months and years. Finally, the budget cuts implemented by the current government (and its predecessor) in an attempt to reduce the deficit and curb public spending are severely restricting the funding that was hitherto available for a wide array of policies and instruments designed to enhance Spain's presence and influence abroad.

In spite of the above, it is important to note that the reputation and prestige of a modern, complex nation-state are neither built up nor destroyed overnight. It would be misleading, therefore, to exaggerate the impact of the crisis both on Spain's standing in the world and its ability to design and implement an effective foreign policy. Indeed the results of the Elcano Global Presence Index (IEPG), which seeks to compare the international positioning of over 50 countries in an increasingly globalised world, would suggest that Spain's global presence has not been significantly affected by the crisis yet.[8] (It should be noted, however, that the IEPG measures a nation's global presence, not its 'power' or 'influence'). Similarly, polls suggest that Spain's standing in the eyes of others has not suffered as much as the government –and numerous media commentators– would appear to believe; according to one recent study, Spain is still viewed very favourably in Germany, France and Britain, and Germans value Spain more positively than they do Britain or Italy.[9]

The Defence and Security dimension

The economic crisis is nevertheless influencing the government's own perception of what it can achieve abroad. Spain's latest National Defence Directive, published in July 2012, acknowledges in its preamble that the economic crisis –which it describes in passing as "a threat to security"- will require the government to "proceed with great caution" in its efforts to implement budget cuts while securing the means necessary to guarantee an effective defense, and to act responsibly in using the limited resources available as efficiently as possible.[10] Judging from the tone and content of this document, it would appear that the executive is concerned that the crisis could even undermine its military credibility, both *vis-à-vis* potential enemies who might generate "unshared threats", a euphemism

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[8] The 2012 IEPG report, which measures economic, military and 'soft' presence, ranked the southern European countries as follows: Italy (10th); Spain (11th); Greece (35th); and Portugal (41st). See http://www.iepg.es/

[9] Pew Research Centre, 'European Unity on the Rocks', 31 May, 2012, available at: http://www.pewglobal.org/2012/05/29/chapter-4-views-of-eu-countries-and-leaders/

[10] For an analysis of the 2012 National Defence Directive, and a comparison with earlier versions, see: http://www.ieee.es/Galerias/fichero/docs_analisis/2012/DIEEEA35-2012_DDN_IEEE.pdf

traditionally used to describe Moroccan claims over Spain's North African enclaves (Ceuta and Melilla), and in the eyes of its allies in NATO and the EU.[11]

Notwithstanding these concerns, in July 2012 the government announced that the Ministry of Defense was planning to shed 15,000 troops and an additional 5,000 civilian employees over the course of the next 13 years. (The Spanish Armed Forces had already lost 20,000 troops during the previous six years). Even more alarmingly, a month later the Spanish Army confirmed that it had 'mothballed' some 50 percent of its combat vehicles because the cost of keeping them operational was too high.[12] In the shorter term, the contingent of just over 1,000 Spanish troops stationed in Lebanon as part of the only UN mission in which Madrid is currently participating will be cut by 50 percent in the course of 2012 as a result of the ongoing decrease in military spending. (Spain put an end to its 18-year presence in Bosnia-Herzegovina in November 2011). This should at least allow the government to honour its commitment to ISAF; the Spanish contingent in Afghanistan, currently numbering some 1,500 troops, is scheduled to decrease by 10 percent in 2012 and by a further 40 percent in 2013, prior to its complete withdrawal in 2014. Not surprisingly, perhaps, the new National Defence Directive does not have much to say about Spain's future contribution to international missions such as these.

The latest National Defence Directive is striking for its distinctly unilateralist tone. Some critics have argued that this is precisely the opposite of what is required in times of crisis, and have called on the government to contribute more effectively to the efforts of both NATO ('smart defence') and the EU ('pooling and sharing') to do more with less.[13] Others have gone so far as to claim that the directive "omits everything that might remotely be interpreted as a step towards a united European defense plan, though without this it is highly unlikely that a credible dissuasive capacity can exist, at a time when the United States is shifting forces from European territory toward the Pacific…" Furthermore, this alleged euroscepticism has been judged incompatible with the government's "proclaimed desire to move toward fiscal and even political union on the European scale".[14]

Budget cuts and their impact

It could be argued that the crisis is already accelerating the 'Europeanization' of Spanish foreign policy, if only by default. In August 2012, the Foreign Ministry announced it would be closing its embassies in Yemen and Zimbabwe, with the result that in future Spanish interests there will be handled by the EU delegations in these countries. This type of measure should allow the ministry –which suffered an unprecedented 54 percent budget

[11] The possibility of a Moroccan attack against Ceuta and Melilla is described as an "unshared threat" ("amenaza no compartida") because NATO is under no treaty obligation to defend these enclaves. It would appear that the Spanish government does not set much store by Article 42.7 of the Treaty on European Union, according to which "if a member state is the victim of armed aggression on its territory, the other member states shall have towards it an obligation of aid and assistance by all the means in their power, in accordance with Article 51 of the United Nations Charter".
[12] See: http://politica.elpais.com/politica/2012/07/31/actualidad/1343744179_200894.html
[13] Diego López Garrido, 'Defensa nacional: regreso al pasado', *El País*, 10 August 2012, available at: http://elpais.com/elpais/2012/08/07/opinion/1344351717_982529.html
[14] 'Step backwards in defence', *El País* editorial, 7 August 2012, available at: http://elpais.com/elpais/2012/08/07/inenglish/1344361974_370658.html

cut in March 2012- to concentrate its rapidly diminishing resources in countries (and policies) where they may be deployed to maximum effect.[15]

The need to redefine Spanish foreign policy in response to the economic crisis had been evident for some time. Even before the 2011 general election, a party spokesman had already announced that the PP's foreign policy would be dictated by the need to contribute to economic growth, job creation and the recovery of Spain's prestige abroad.[16] The new foreign minister, José Manuel García Margallo, immediately placed economic diplomacy at the top of his agenda, and his department is developing an ambitious nation-branding effort (the so-called 'Marca España' project), in an effort to counteract the impact of the economic crisis on Spain's image abroad by seeking to convince foreign investors and consumers that Spanish institutions, companies and products continue to deserve their support. It is also seeking to make up for the fact that 47 embassies and 54 consulates currently lack a commercial office by encouraging diplomats to take on new responsibilities in this sphere.[17]

The foreign policy area that has been most severely affected by the crisis is undoubtedly that of official development assistance (ODA). Spending in this area has been reduced dramatically from 0.43 percent of GDP in 2010 to 0.23 percent in 2012, by far the largest reduction witnessed amongst the OECD's 34 member states (including Greece). Although the government has yet to publish its ODA goals for 2013-16, it clearly aims to concentrate the limited resources currently available in those countries with strongest political and cultural ties to Spain, most notably in Latin America, the Caribbean and the Maghreb, to the detriment of other (generally poorer) regions, such as sub-Saharan Africa. All of this is a major disappointment for those who had hoped to see a significant increase in Spain's influence and prestige abroad as a result of the massive increase in ODA witnessed under the Zapatero government, and for those who had sought to place development aid at the top of the Spanish foreign policy agenda (as was reflected in the decision –taken in 2004- to rename the government department in question the Ministry of Foreign Affairs *and Cooperation*). Nevertheless, it should be noted in this regard that an increase in ODA spending, however significant, does not necessarily result in more effective aid, nor does it guarantee an immediate political return for the donor country. Many experts have questioned the vision and effectiveness with which these vastly increased resources were allocated by Spanish ODA authorities in recent years, and the sharp decrease in funds should ensure that a serious attempt is made to disburse these scant resources more efficiently.[18]

Budget cuts have also resulted in a sharp decrease in Spanish contributions to a number of United Nations programmes and initiatives, including the so-called 'Alliance of Civilizations', one of Zapatero's pet international schemes. This was originally conceived as a way of compensating for Spain's enthusiastic alignment with president George Bush's 'global war on terror' under Prime Minister José María Aznar (1996-2004), and

[15] The ministry has also announced the closure of consulates in Morocco (Larache) and Portugal (Valença do Minho and Vila Real de Santo António). This will leave Spain with 116 bilateral embassies, 11 multilateral ones, and 94 consulates worldwide.
[16] Interview with Jorge Moragas, *El País*, 28 August 2012.
[17] Manuel Manrique, 'Spanish foreign policy monitor: January-March 2012', FRIDE Policy Brief 121, March 2012, available at: http://www.fride.org/publication/1003/spanish-foreign-policy-monitor:-january-march-2012
[18] See Iliana Olivie et al, 'Wither cooperation policy?', ARI 16/2012, Real Instituto Elcano, available at: http://www.realinstitutoelcano.org/wps/portal/rielcano_eng/Content?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/zonas_in/cooperation+developpment/ari16-2012

was jointly promoted by the Spanish and Turkish authorities. The Rajoy government's support for this project is underwhelming, to say the least, but the Alliance has been able to attract funding from other UN members, and its continuity is therefore not in doubt, though the same cannot be said of its usefulness.[19] The fact that Spain hopes to be elected to a non-permanent seat in the UN Security Council during the period 2015-20 also explains the government's reluctance to withdraw its support for the Alliance altogether.

Europe: is Spain punching (even further) below its weight?

As argued above, the current crisis has undermined Spain's overall prestige and credibility. Some would even claim that the country's economic difficulties have made it more vulnerable in its relations with other governments, particularly those with an axe to grind. A case in point would be the Argentine government's decision –taken in April 2012- to unilaterally expropriate YPF, an oil company belonging to the Spanish multinational REPSOL, on the largely spurious grounds that it was not fulfilling its contractual obligations. Those same analysts would argue that the Spanish government's inability to prevent the take-over, or to make the Argentine authorities pay for their outrageous behaviour, is further evidence of the country's growing vulnerability and overall lack of international clout. Given that companies from other major Western nations have been treated in a similar fashion by the Argentine authorities in the past, however, this argument is far from water-tight.

It is difficult, if not impossible, to provide empirical evidence of the impact of the economic crisis on Spain's relations with its major European partners, or its role within the EU as whole. To begin with, many analysts would argue that Spain had already lost visibility and influence within the EU in the course of the past decade, even when its economy was growing considerably faster than the EU average. This trend has often been attributed to longer-term transformations, such as the loss of protagonism resulting from the successive enlargements that have taken place since Spain's accession in 1986 and the emergence of a more heterogeneous EU, most notably as a result of the Eastern enlargement.[20] Whatever the reason, most observers would agree that Spain has never recovered the leadership and influence it briefly enjoyed within the EU in the late 1980s and 1990s. If Spain was punching above its weight then, today the opposite might well be the case.[21]

The economic and financial crisis has encouraged political élites to reconsider Spain's external commitments and allegiances. On the whole, however, both elite and popular commitment to the European project remains strong, in spite of the hardships incurred as a result of the austerity measures and structural reforms which are largely perceived as an external imposition. Unlike Greece, Spain does not have to worry about xenophobic far-right parties seeking to take advantage of the crisis to increase their popularity, and

[19] See Charles Powell, 'A second transition, or more of the same? Spain's foreign policy under Zapatero', in *South European Society and Politics*, Vol. 14, no. 4, December 2009, available at: http://transatlantic.sais-jhu.edu/publications/articles/2009_Spanish_Foreign_Policy_under_Zapatero_by_Charles_Powell.pdf

[20] See Charles Powell, 'Fifteen years on: Spanish membership in the EU revisited', Harvard Center for European Studies, Working Paper nº 89, 2001, available at: http://aei.pitt.edu/9138/1/Powell.pdf

[21] This is the view advanced by Ignacio Molina and Juan Tovar, 'The year the other bubble burst: Spanish foreign and security policy in 2010', in Anuario Internacional CIDOB 2011, available at: http://www.cidob.org/en/publicaciones/articulos/anuario_internacional_cidob/el_ano_en_que_estallo_la_otra_burbuja_la_politica_exterior_y_de_seguridad_espanola_en_20102

there have been no significant expressions of anti-German feeling, either at the elite or the popular level.

Interestingly, the crisis does not appear to have strengthened existing ties amongst the southern European member states, as might have been expected. From a Spanish perspective, this has not come as a surprise, however. Madrid has never enjoyed a particularly close relationship with Athens, either bilaterally or within the EU. Portugal is obviously of far greater importance to Spain, given the very significant investments and exports it has poured into its neighbour since both countries joined the EU in 1986; however, this unprecedented economic interdependence has only occasionally translated into a strong political partnership, partly because Portuguese elites remain fearful of Spanish 'colonization'. Additionally, the mantra constantly repeated by Spanish politicians to the effect that 'Spain is not Portugal' in the wake of the latter's bailout could hardly be expected to improve relations.[22] Finally, the relationship with Rome has long been plagued by disconcerting contradictions and misperceptions. Given certain similarities between the two countries, they might have been expected to work well together both bilaterally and at the EU level, but this has not generally been the case. Spanish elites suffer from a curious superiority complex when it comes to dealing with their Italian counterparts, and the received wisdom in Spanish diplomatic circles is that, brilliant and creative though they may be, their Italian colleagues rarely deliver as promised. Italian officials, for their part, are somewhat bemused by what they sometimes perceive as the self-confidence (if not arrogance) of a relative newcomer to the European game, and are often privately critical of Spanish officials' self-importance.[23] Additionally, it should be noted that Spain and Italy perceive each other as economic rivals in some sectors and regions, most notably the energy and telecoms markets in Latin America.[24]

In Spain as elsewhere, it is widely believed that Germany holds the key to the solution of the Euro zone crisis and indeed the survival of the single currency as we know it. Relations with Angela Merkel's government were never very close under Zapatero, and they were expected to improve significantly after his replacement by Rajoy, who belongs to the same ideological family as the German chancellor. However, Rajoy is a somewhat parochial politician, who speaks no foreign languages and has limited European experience, and his efforts to establish a good rapport have met mixed success. The same may be said of his dealings with French president François Hollande, who has complicated matters somewhat by openly cultivating Rubalcaba, the current leader of the socialist opposition. All of this may explain why Rajoy has seemed curiously content to allow Monti to fight his corner for him, even though Spanish and Italian interests are by no means identical.

[22] 'Top politicians: Spain is not Portugal', EUobserver, 25 March 2011, available at: http://euobserver.com/economic/32063

[23] These comments reflect the attitude of a number of senior Spanish and Italian diplomats interviewed by the author in May-July 2012.

[24] In December 2007, Zapatero and Romano Prodi clashed in public over their countries' comparative wealth after Eurostat published data showing that Spain had overtaken Italy in terms of GDP per capita; five years later, their successors seemed to be competing to see which of them could survive longest without having to request an EU bailout. See Ettore Livini, 'Si infiamma il derby Spagna-Italia', *La Reppublica*, 12 April 2012, available at: http://ricerca.repubblica.it/repubblica/archivio/repubblica/2012/04/12/si-infiamma-il-derby-italia-spagna-rajoy-piu.html

Latin America and the Mediterranean

Even before the economic crisis, Madrid was already experiencing difficulties in the two non-European regions of greatest importance to Spain. For well-known cultural, political and economic reasons, Spain has traditionally set great store by its relations with Latin America, a region which currently receives a quarter of its investments and more than a third of its development aid. If anything, the economic crisis has increased the region's importance in Spanish eyes, since it is largely the growth experienced in recent years in countries such as Mexico, Brazil, Chile, Colombia and Peru that is allowing Spain's major multinational corporations to survive the crisis relatively unscathed. Nevertheless, Spain's political influence and prestige in the region are clearly on the wane, a trend that was already visible before the current economic crisis set in.

One of the curious paradoxes of Spanish foreign policy is that it has a 'Plan for Africa' and a 'Plan for Asia', but it lacks a strategy for its major partner outside Europe.[25] This is partly because Spanish political and academic elites have traditionally seen themselves as part of a broader transatlantic community known as '*Iberoamérica*', a concept that was formally institutionalized in the early 1990s with the creation of an 'Iberoamerican Community of Nations', an intergovernmental organization that bears comparison with the British Commonwealth. While this may have served a useful purpose twenty years ago, today it may represent more of a hindrance than an asset, for it has prevented Spanish policymakers from coming to terms with the major changes currently taking place in the region. At the same time, even those Latin Americans who still treasure their 'special relationship' with Spain have become increasingly sceptical about the usefulness of the Iberoamerican project, a trend that Spain's current economic woes can only intensify.

Leaving aside that fact that the Iberoamerican project and Spanish membership of the EU were probably never fully compatible (as long-standing Latin American opposition to the Common Agricultural Policy suggests), Madrid has also found it increasingly difficult to act as an effective 'bridge' between Latin America and Brussels. This is partly a consequence of successive EU enlargements, which brought to the table new member states that either had no interest in the region or proved reluctant to accept Spanish leadership. Additionally, the emergence of some Latin American states as major economic powers with their own leadership agendas (particularly Brazil) and the election of populist governments (in Venezuela and elsewhere) which resent Spanish influence have undermined Madrid's role in the region. Thus, in spite of its perceived leadership role in EU-Latin American relations, in recent years Spain has failed to advance negotiations between the EU and MERCOSUR, or between the EU and the Andean Community of Nations. Similarly, Spain has not been particularly active in promoting the EU's strategic partnerships with individual Latin American countries such as Brazil and Mexico.

Finally, Spain's leadership in the EU with regard to Latin America has also been undermined as a result of its tendency to politicize its bilateral relationships with some of the region's governments along partisan lines, most notably in Cuba and Venezuela.

Given all of the above, and taking into account the impact of the economic crisis, it is likely that in coming months and years Spain will devote less time and energy to EU-Latin America relations in order to concentrate on its strictly bilateral links with a handful of

[25] Susanne Gratius, 'Why does Spain not have a policy for Latin America?', FRIDE Policy Brief 29, January 2012, available at: http://www.fride.org/publication/706/why-does-spain-not-have-a-policy-for-latin-america.

trusted political and economic partners, most notably Mexico, Brazil, Chile, Colombia and Peru.

As in the case of Latin America, the decline of Spain's influence in the Mediterranean also predates the current economic crisis. Spain has traditionally been seen as a major player in the region, and its contribution to the Barcelona process in the 1990s was widely acknowledged. However, the latter's replacement by the French-inspired Union for the Mediterranean (UfM) has been interpreted as evidence of this decline, and Madrid's failure to respond to the UfM's poor performance in recent years would appear to justify this view.

As was true of the rest of southern Europe, the so-called 'Arab Spring' took Spain by surprise, and early reactions were somewhat ambivalent.[26] In the past, Spanish governments had generally engaged with existing regimes in an effort to encourage social and economic reforms carried out 'from above', without exerting much pressure in favour of overt democratization. This was particularly true with regard to Morocco, where the royal family's close relationship with King Juan Carlos is regarded as a major political asset. To some extent, this approach may be seen as an indirect legacy of the Spanish transition, in which a reformist monarch paved the way for democracy, even though Spanish policy makers have always been careful not to give the impression that they were seeking to export the so-called 'Spanish model'.

In spite of the above, the Zapatero government was quite warm in its reaction to developments in Tunisia and Egypt, which were greeted with enthusiasm by Spanish public opinion. However, the economic crisis seriously limited the government's efforts to support democratization actively in these countries, which had to make do with very modest additional Spanish contributions to the European Investment Bank. At the same time, the Spanish executive was distinctly cautious about developments in Libya and Syria, and much less assertive than other EU member states in demanding a change of regime there. More surprisingly, perhaps, Spain has not played a vanguard role in attempting to involve the EU more actively in the region. Policymakers understand that the new context offers an opportunity for Spain to recover some of its former influence, but have tended to favor bilateral rather than multilateral initiatives. Furthermore, the crisis has led them to concentrate their efforts on improving investment and commercial ties in the region, to the detriment of other, longer-term concerns. In short, it would appear that the crisis has hampered Spain's willingness and ability to provide significant leadership within the EU when it comes to designing and implementing innovative policies towards the MENA region.[27]

Spain and the United States

Spain's relationship with the US has not been an easy one in recent years. Prime Minister Aznar spearheaded an ambitious attempt to develop a British-style 'special relationship' with Washington in the wake of the 9/11 terrorist attacks, but this was rapidly reversed by his successor Zapatero on the grounds that it was incompatible with Spain's long-standing

[26] Richard Gillespie, 'Guiados por la crisis: la política exterior y de seguridad de España en 2011', in Anuario Internacional CIDOB 2012, available at: http://www.cidob.org/es/publicaciones/articulos/anuario_internacional_cidob/2012/guiados_por_la_crisis_la_politica_exterior_y_de_seguridad_en_espana_en_2011

[27] Ana Echagüe, 'Time for Spain to lead the EU's Mediterranean policy', FRIDE Policy Brief 74, April 2011, available at: http://www.fride.org/publication/903/time-for-spain-to-lead-the-eu's-mediterranean-policy

commitment to the European project. The bilateral relationship subsequently nose-dived during the second Bush administration, most notably as a result of Zapatero's unilateral decision to withdraw Spanish troops from Iraq in 2004. Ironically, in the wake of Obama's 2008 victory, the socialist prime minister deluded himself into thinking that he too could reach a special understanding with the White House, presumably on account of what he saw as his ideological affinities with the new president, but this never materialized. Much to the government's chagrin, Obama did not visit Spain officially while Zapatero was in office.[28]

Zapatero had been particularly critical of Aznar's support for the Bush administration's foreign policy. It therefore came as a major surprise when, in October 2011, only weeks before the general election and without consulting parliament, he announced that Spain would be hosting the naval elements of NATO's anti-missile defence system. The prime minister justified this on the grounds that Spain lies "at the gateway to the Mediterranean", and was also quick to point out that the home porting of four Ballistic Missile Defence-capable Aegis ships at Rota naval base in southern Spain as of 2014 would bring with it considerable economic benefits. This somewhat disingenuous attempt to justify a major foreign policy reversal on the flimsiest of economic grounds did not go down well with Spanish public opinion, however. Although the decision was well-received by the then leader of the conservative opposition, subsequent negotiations between Washington and the new Rajoy government concerning the details of the agreement proved laborious, though an agreement was finally reached in October 2012. However, the deal has yet to be debated in parliament, where it may meet some opposition from left-wing parties. In short, the consequences of Zapatero's swan song may yet prove more controversial than originally expected.

As in other parts of Europe, in Spain political elites are under the growing impression that the US is distancing itself from Europe, and that the economic crisis has strengthened and accelerated this dynamic. More specifically, the belief that the US is increasingly interested in the Asia/Pacific region partly as a result of Europe's current economic difficulties is widely shared. More importantly, while they may still pay lip-service to the importance of the transatlantic relationship, Spanish elites are generally under the impression that the crisis is weakening economic transatlantic cooperation.

The Obama administration's expressions of concern about the Spanish economy and its efforts to encourage European leaders to seek political solutions to the EU's economic governance problems have been well received in Spain. (Conversely, presidential candidate Mitt Romney's disparaging remarks about Spain, Italy and Greece –which he has compared to bankrupt California- have probably had the opposite effect). However, both elites and the public at large generally feel that there is little the US Administration can do to overcome the current impasse, which is perceived as an almost exclusively European stalemate which only European actors will be able to resolve (if at all).

In spite of the above, Spanish policymakers are well aware of the importance of the economic relationship with the US. The US is currently Spain's number one trading partner outside the EU, with bilateral trade representing almost $22 billion in 2011.

[28] Charles Powell, 'Spanish-US relations at the crossroads', in Anuario Internacional CIDOB 2009, available at: http://www.cidob.org/es/publicaciones/anuarios/anuario_internacional_cidob/anuario_internacional_cidob_2009_estados_unidos_de_america_perfil_de_pais/(language)/eng-US

Additionally, Spanish foreign direct investment stocks in the US reached a record $47.5 billion in 2010, making Spain the eleventh largest investor in the US, a figure that will probably decline as a result of the crisis. Spanish companies are currently the largest foreign investors in the US renewable energy sector and are major participants in US Department of Energy renewable energy programmes. Spain also attracts a significant amount of US FDI –with stocks amounting to $60 billion in 2010- and US corporations with a major footprint in Spain have expressed their willingness to continue to invest in the country in spite of its current economic difficulties. In early 2012, for example, the Ford motor company announced it would be investing €1.2 billion in its Almussafes (Valencia) plant over the next five years.

What role for the transatlantic relationship?

The economic crisis is having a negative impact on the transatlantic relationship in a number of different ways. In the US it is raising fresh doubts as to the long-term viability of Europe as its major trade and investment partner, and there are also fears that a crisis-ridden, inward-looking EU will be less relevant and reliable as an ally when it comes to addressing global challenges. Conversely, the perception that the crisis is basically Europe's to solve and that options for direct US involvement are very limited may lead Europeans to question the overall relevance of the transatlantic relationship. In Spain at least, the transatlantic dimension has barely figured in the ongoing debate about the nature, evolution and possible outcome of the crisis.

From a strictly Spanish perspective, the US could contribute to mitigate the impact of the crisis by increasing its private sector investment; in spite of the crisis, FDI into Spain rose by 18.4% in 2011, of which 6.4% originated in the US. A recent bilateral agreement on double taxation and new Spanish legislation to fight internet piracy may contribute to this goal. Conversely, Spain has yet to develop a viable strategy that would enable its companies to take full advantage of the Hispanic market –approximately 50 million US residents speak Spanish- in sectors such as publishing, the media and telecoms.

The EU and the US could also do more to mitigate the impact of the crisis by unlocking transatlantic economic activity. As the interim report by the EU-US High Level Working Group on Jobs and Growth published in June 2012 suggests, closer cooperation on the harmonization of regulations, tackling behind-the-border barriers and enforcing intellectual property rights (an issue that has seriously hampered US-Spanish economic relations in recent years) could have a significant impact on transatlantic trade. Additionally, it could also help address shared market access problems in third countries (particularly in regions of special interest to Spain, such as Latin America), and to strengthen global rules and norms worldwide.[29]

The most effective way to reverse (or at least limit) the potentially negative consequences of the crisis on the transatlantic community would be to embrace a bold, high-profile initiative that both sides might find inspiring, providing the transatlantic relationship with a new, badly-needed narrative for a post-crisis scenario. This is something that could probably best be achieved by means of a transatlantic free-trade agreement, which, if sufficiently ambitious, could contribute significantly to the economic recovery of both the US and the EU, Spain included. As Dan Hamilton has proposed, the new agreement

[29] See Secretary of State Hillary Clinton's remarks to the US-Spain Council, 24 June 2012, available at: http://www.state.gov/secretary/rm/2012/06/193978.htm

should have three major interrelated goals: to renew and open-up the transatlantic market; to reposition the transatlantic partnership so as to better engage with third countries on the fundamental rules of the international economic order; and to extend the rules-based multilateral system to new members and new areas of activity, such as intellectual property, services or discriminatory industrial policies.[30]

From a specifically Spanish perspective, in the longer term it would also make good sense to gradually extend the benefits of this transatlantic free trade area to Latin America and Africa, in keeping with the philosophy of the so-called Atlantic Basin Initiative, which seeks to redefine the way we currently perceive the Atlantic as an economic space.[31]

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[30] Daniel S. Hamilton and Pedro Schwartz, 'A transatlantic free tree area: a boost to economic growth?', available at: http://transatlantic.sais-jhu.edu/publications/articles/TAP_op_ed_Jan_2012_final.pdf

[31] See Daniel S. Hamilton and Frances G. Burwell, 'Shoulder to shoulder: Forging a strategic US-EU Partnership', December 2009, available at: http://www.acus.org/files/publication_pdfs/65/US-EUPartnership.pdf