

**Spain and the G-20:  
A strategic proposal for enhancing its role in global  
governance**

*Elcano Royal Institute*

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### Summary

This paper explores the role Spain can and should play in the institutions engaged in global governance in the current context of financial crisis and reconfiguration of international power centres. After briefly analysing Spain's relative position in the world –on the basis of economic and other criteria– the study suggests the path it should follow to boost its influence in the world. The paper points out Spain's comparative advantages, the areas where it could contribute most, and the shortcomings that make it difficult to translate Spain's economic weight into greater political influence at the global level.

### **(1) A preliminary matter: can Spain really play in the big leagues?**

For some time now, a debate has been under way concerning Spain's international influence: while some analysts argue that in the past 15 to 20 years the country has punched above its weight, taking advantage of a favourable environment without addressing certain structural issues (for example, the size and funding of its Foreign Service and Armed Forces), others claim that Spain wields less international influence than it is entitled to, given its current level of economic, political and social development.

The doubts raised before it was confirmed that Spain would be present at the enlarged meetings of the G-20 in Washington (November 2008) and London (April 2009) have stirred a new and interesting debate on Spain's international role, and in particular its possible contribution to a redefinition of the institutions of global governance. The debate has been positive in so far as it has revealed that Spain's political elite and significant sectors of society are sensitive to the need to avoid being complacent abroad. However, it has also given cause for concern by revealing that there is considerable uncertainty as to how globalization can best be governed, and a lack of clear thinking as to why Spain should seek to play a prominent role in the future world order. Doubts have also been raised as to Spain's ability to take on the responsibility that such a role entails.

One initial question to resolve in all this requires coming up with an accurate estimate (neither complacent and self-aggrandizing nor self-deprecating and unduly modest) of Spain's potential. This calls for rigorous analyses comparing Spain's international status with that of other countries while taking into account historical trends and prospects for

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the future. As far as Spain's international economic weight is concerned, objective empirical data indicate that its economic position is the following:<sup>1</sup>

- Spain has the world's eighth-largest economy, with a GDP of just over 1 trillion euros, behind the US, Japan, China, Germany, the UK, France and Italy.
- If the size of its output is measured in Purchasing Power Parity rather than at market exchange rates, it drops to 11<sup>th</sup> place, falling behind India, Russia and Brazil (these three emerging countries have populations much larger than Spain's and per capita incomes far below Spain's).
- If one divides the size of the economy by the population (thus obtaining *per capita GDP*), then Spain surpasses €24,000 per capita (around US\$30,000). This brings it down to 25<sup>th</sup> in the world, measured either at market exchange rates or purchasing power parity. However, if one only considers countries with more than 10 million inhabitants, Spain rises to 11<sup>th</sup> place, and is surpassed only by the traditional powers of the G-7 (at a level similar to Italy's), plus the Netherlands, Australia and Belgium.
- Spain accounts for 2.5% of world GDP and 2.7% of world trade (imports plus exports). However, Spain's quota at the IMF is not commensurate with that weight and is a mere 1.69%.<sup>2</sup> There is a similar situation within the World Bank Group, and at the International Bank for Reconstruction and Development, for instance, Spain's contribution and voting weight only adds up to 1.7%. In both cases, these quotas, which are far below Spain's real weight, place it 15<sup>th</sup> in the world, ranking behind countries with smaller GDPs such as Belgium, the Netherlands, Canada, Brazil, Russia, India and Saudi Arabia.
- At the European level, Spain is firmly established as the fifth largest economy in the EU, with a per capita income of €24,000 a year, which places it close to the EU-27 average.
- Among exporting countries, Spain is 15<sup>th</sup> in the world, behind much smaller countries (such as the Netherlands, Belgium and Singapore). Its current account balance is particularly deficit-prone within the developed world, as a result of which it has a structural need for external financing. In 2008, its current account deficit reached 10% of GDP (some €120,000 million), the second largest deficit in the world after the US (and the largest in relative terms among advanced countries).<sup>3</sup>
- Despite the vulnerability resulting from this structurally negative trade balance (and which is offset less and less by a surplus in services), Spain performs well in some industrial areas: for instance, it is the world's eighth largest car manufacturer (although in decline because of relocation to Eastern Europe), and its renewable energy, biotechnology and telecommunications sectors are very strong.

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1 The following data come from the Bank of Spain, Eurostat, the IMF and the OECD.

2 Since the financial crisis broke out, debate has emerged over reforms of the IMF quota system. In any case, it is worth noting that Spain's quota was raised in 2006 from 1.42% to 1.69%, the biggest increase any country has endured in the recent reforms of the IMF contributions system.

3 This deficit is narrowing quickly as the economic recession intensifies and imports decrease, and recent data suggest it could fall below 7% in 2009.

- In the energy field, Spain is clearly dependent on the outside world, in spite of which it is the 12<sup>th</sup> largest nuclear energy producer, and also the fourth largest producer of renewable energies, after Germany, the US and China. One little known fact is that in recent years many re-gasification plans have been built, as a result of which two-thirds of the natural gas imported by Spain imports is liquefied (and thus not transported through gas pipelines, which are more prone to cuts in supply). This makes Spain, along with Japan and South Korea, one of the worlds's most advanced countries in this respect.
- Spain is in better shape financially than commercially: it is the world's sixth largest overseas investor in terms of stock, and in 2007 it ranked third in terms of the amount it invested in other countries, mainly in Latin America and the European Union. Two Spanish banks (BBVA and Santander) are among the ten largest in the western world, the Madrid Stock Market is among the top ten in the world in terms of capitalization and operations, and the market's value is even greater if one includes *LATIBEX* which combines Spain with Latin America.
- Spain, furthermore, is surpassed only by France in the number of tourists it receives each year.
- According to the Economic Freedom Index compiled by the Wall Street Journal and the Heritage Foundation, Spain is in 29<sup>th</sup> place; and it is ranked 27<sup>th</sup> in the Global Competitiveness Index published by the *World Economic Forum*.
- Finally, Spain is ranked 12<sup>th</sup> in the Brand-Country Index published by *Future Brand* and *Weber Shandwick*. It mainly stands out as an appealing place for travel and family life.

Leaving aside its economic importance, one should also keep in mind Spain's position in rankings that measure other aspects (political and social) which also have a direct impact on the country's level of influence in the world:

- In the UNDP's *Human Development Index*, Spain tends to rank 13<sup>th</sup> to 16<sup>th</sup> in the world. This index is a good indicator of quality of life because it combines per capita income with life expectancy.
- In the Prosperity Index published by the *Legatum Institute*, which also combines economic with socio-political factors, Spain ranks 20<sup>th</sup> (significantly, it ranks 26<sup>th</sup> in economic competitiveness and 18<sup>th</sup> in well-being, being particularly strong in leisure activities, health, personal freedom, family and internal governance).
- The rise in Spain's commitment to development in recent years knows no equal: in 2007 Spain earmarked 0.41% of GDP for official aid (more than €4,200 million), making Spain the world's seventh largest donor in absolute terms, and in 2008 it will have reached the 0.5% threshold. Furthermore, Spain ranks 12<sup>th</sup> in the commitment to development aid index published by the *Center for Global Development in Washington*. It is ranked third among countries which have advanced the most over the last two years.

- In recent years Spain has also increased its overall commitment to the United Nations, and is now its ninth largest contributor in terms of quotas.
- In the political realm, Spain does particularly well, ranking 15<sup>th</sup> in the *Economist Intelligence Unit's* Democracy Index.
- However, Spain drops down to 27<sup>th</sup> place in the Corruption Perceptions Index published by *Transparency International*.
- There are also problems in the field of education: although state spending has increased significantly in the past three decades (and represents 4.8% of GDP), it is still below the OECD average (5.5%). This translates into a poor level of education at the mandatory level (Spain is in the 25-30 range among the 60 countries that took part in the PISA Report). The results are similar for Spanish universities: Spain invests 1% of its GDP in higher-level education (compared to an OECD average of 1.3%), but very few Spanish universities and research centres achieve high levels of excellence in international rankings.
- In terms of scientific research and technological development, the data are particularly negative. Although some progress has been made in recent years, Spain only invests 1.2% of GDP in R+D. This is seven-tenths of a percentage point below the EU average and less than half of what countries like the US or Japan spend. Furthermore, when it comes to registering patents in the EU-15, Spain is at 25% of the EU-15 average. All of this means low levels of productivity, little added-value being incorporated to export products and limited technological innovation outside of large multinational companies.
- Culture-related rankings are much more positive, particularly with regard to the literary world (including book publishing), the Arts (Spain is ranked second in the world in terms of UNESCO World Heritage Sites and major museums), sports, cuisine and even cinema. And above all (although this factor is shared with 18 other countries), the international importance of the Spanish language is beyond doubt: some 450 million users make it the world's fourth most spoken in the world, the third most widely used on the Internet and the second most frequently studied as a foreign language, surpassed only by English.
- Finally, in the category of total spending on defence, Spain ranks 15<sup>th</sup> in the world, behind countries of lesser economic weight, such as South Korea, Saudi Arabia and Turkey.

In short, whereas Spain is 12<sup>th</sup> to 30<sup>th</sup> in the rankings that measure values related to wealth, quality of life and economic or political freedom (which is quite respectable, considering that there are currently almost 200 sovereign states in the world and, in particular, only 10 countries surpass Spain if we restrict the rankings to countries with more than 10 million inhabitants), in the indicators that measure socio-economic power around the world in absolute terms, Spain ranks even higher, between 6<sup>th</sup> and 15<sup>th</sup> place.

*In light of all of the above, today Spain may be said to be among the 10-12 most important countries in the world.*

For well-known historical reasons, Spain was not able to participate in the creation of the institutions and procedures that have defined global governance since World War II. Consequently, if we are really moving toward an ambitious reshaping of those institutions and procedures, we must seek to prevent Spain from being excluded again and consolidate a presence that it began to forge by taking part in the G-20 summits in Washington and London as well as by joining of the Financial Stability Forum.

What is more, from our point of view Spain must find a way to make virtue out of necessity, using the current financial and economic crisis in order to strengthen its position among the world's most influential countries. It is not a matter of Spain's taking part in the most important forums as a way of gaining prestige or enhancing its reputation. Rather, it is because these forums will play a key role in reconfiguring the international order, an order which will largely determine Spain's future well-being and security.

## **(2) What model should Spain follow in order to be a major player?**

Before suggesting a strategy for achieving this goal, it is essential to have a clear idea of which model one wishes to pursue. More specifically, Spain must decide if it wants to be:

- (a) A country with growing ambitions abroad and which, like some other intermediate or emerging players, seeks to enter the group of leading actors which shape world policy by relying not so much on its political, social or cultural assets, or on the fact that it embodies values that are shared all over the world, but rather on classical elements of so-called 'hard' power. These elements include economic weight, demographic size, the expansion of its companies and even the potential for physical coercion or, at least, the capacity to befriend or form alliances with nations that do enjoy undisputed military capability.
- (b) A 'Scandinavian-style' state, characterized mainly by its 'soft' power' and admired abroad for its respect for democracy and human rights, or its commitment to protecting the environment, sustainable development, etc. Or even a State which could come to be considered neutral by the non-western world because it knows how to eschew permanent alignments and thus has enough credibility to understand sensitivities that are not inherent to the Euro-Atlantic world, denounce situations that are unfair, and, to the extent that the resources earmarked for its Armed Forces will allow it, take part in peacekeeping operations, etc.
- (c) A 'medium-sized' power of regional scope but global projection, which, besides promoting certain values and principles that are widely shared by its population (democracy, personal freedoms and liberties; respect for international law,

sustainable economic growth, the war on poverty, etc.), which grant it the legitimacy to lead global initiatives or mediate in conflicts, has substantial interests to defend overseas (security-related, economic, energy-related, cultural, etc.). It will seek to do so through ambitious diplomatic action of its own, which will nevertheless be in keeping with the notion of 'efficient multilateralism', acting at three distinct levels: first and foremost, the European; secondly, the Western, and finally, at the global level.

As we see it, Spain should clearly opt for the third model, which is also the one embraced by Germany, France, the UK, Italy and the Netherlands or, beyond the borders of Europe, by Japan, Canada and Australia. This is because Spain is particularly well-placed to combine the 'hard' power it has accumulated over the past few decades with growing 'soft' power which increasingly takes into account both the appeal of its recent successful history in terms of development and co-existence and its potential in matters cultural, linguistic, scientific and sports-related, amongst others.

Opting for this third model is not only desirable in and of itself. It is consistent with Spain's major contemporary options in foreign policy and with the conviction that diplomacy should serve to promote Spain's specific national interests and its highly-regarded overall political and socio-economic model. Furthermore, it is also a necessity, for if Spain does not opt for a model that aims to maximize its influence in international relations –by using the various elements of power that are at its disposal, and in the appropriate combinations– it will gradually lose influence overseas. This will mean fewer opportunities for shaping globalization in line with the country's priorities and comparative advantages (economic and institutional), and could eventually undermine Spain's own prosperity by limiting its room for manoeuvre as a sovereign political entity.

### **(3) We want to be among the big players, but where, exactly?**

The drive to be among the group of countries that aim to lead the process of globalisation raises two questions about the strategy that Spain should pursue to achieve this objective:

- (a) Firstly, in terms of European integration, how loyal is it for Spain to seek to act on its own without entrusting the defence of its interests exclusively to the EU, which is currently an informal member of the G-8 and a full-blown member of the G-20?
- (b) Secondly, it has been taken for granted that the G-20 is the forum in which Spain should try to consolidate its position, without taking into account that many prominent voices express serious doubts as to whether this is legitimate and/or appropriate.

As far as the first question is concerned, it could be argued that a specifically national strategy to shape globalization and world governance is incompatible with Spain's

European calling. However, Spain, whose GDP doubles that of the sixth EU member state (the Netherlands) and is three times that of the seventh (Poland), has already reached the average wealth of the EU-27 (and will very soon cease to be a net recipient of EU funds as a result) and has the highest net influx of immigrants in the EU, can legitimately seek to play a more prominent international role. As the EU continues to enlarge and comes closer to having 30 members, only six or seven of which have demographic or economic weight that is truly meaningful, the importance (and responsibility) of the larger states must necessarily increase.

Furthermore, the way we see it, European integration is a positive-sum game, not a zero-sum game. Inasmuch as Spain is a country with solid Europeanist convictions, a greater Spanish role at the global level can only benefit the EU as a whole. Europe is, of course, more than the mere sum of its parts. But its relevance also rests on the importance of those parts. A Spain which seeks to make its own, individual contribution to governing globalization enhances the European component of that undertaking. If the Union later rises to the task, finally gets beyond the endless debate over its institutional model and agrees internally to assert itself abroad as a cogent entity –which is what Spain wants– the capacity acquired individually by Spain will certainly serve the EU bloc as a whole. But if such a European development does materialise, Spain will not have wasted its efforts, either.

What is more, although Spain sees itself as the fifth-largest power in the EU in economic and political terms, it has some specific features (its influence in the Maghreb and Latin America and the importance of its language and culture) which make it a regional player with a global projection. One must not forget that, paradoxically, even though Spanish is the second language internationally, it is only fifth in the European realm.

Having established the argument that it is legitimate for Spain to think and act of its own accord in parallel with the EU (though not independently of the EU), it is now time to consider the appropriateness and legitimacy of the G-20 as the forum in which Spain should seek to consolidate its presence in order to achieve the goals mentioned earlier.

Whether Spain likes it or not, in the past few decades the larger states have increasingly used the 'G' format for meetings, from which Spain had been absent until now. These informal gatherings for international economic governance, whose members tend to meet several times a year at the ministerial level, and with a higher political profile at summits (usually yearly) of heads of State or Government, have no founding charter or permanent administrative structure, nor any official link to the United Nations system or other international organizations open to all states because, unlike these organizations, membership in the G formats is acquired through cooptation.

The idea first emerged in the mid 1970s as a German and French initiative, when these countries invited the other leading industrialised powers (the US, the UK and Italy) to an



informal meeting of heads of State and Government to discuss how to respond to another international economic crisis (that of 1973, and the world recession that followed it) and the ending of the Bretton Woods system of fixed exchange rates. Thus, the G-6 was born. Only two years later the name was changed to G-7 with the addition of Canada –which at the time was much richer than Spain –and in the 1990s the group grew to incorporate Russia (G-8)<sup>4</sup> and the EU. The EU participates in meetings through the European Commission and whichever country holds the Union’s rotating presidency, although it does not have the same status within the G-8 as the other member states.

Although the G-7/G-8 has always lacked any real legal or political international legitimacy, its relative efficiency in advancing some economic coordination measures amongst its members (such as the reactivation plan produced by the Bonn summit of 1978) and the enormous differences between the GDPs of the West and the less-developed world explain how it perpetuated itself. However, as of 1995 there was increasingly vocal criticism of the sharp differences between the Northern and Southern hemispheres, and of the trade, agricultural, environmental and foreign debt policies of the wealthy countries represented in the G-8, which duly reacted by:

- (a) Broadening its agenda from strictly economic, financial and trade issues to other areas that were more political, such as domestic security, development aid, energy and the fight against global warming;
- (b) Inviting organisations that belong to the United Nations system to participate in G-8 meetings. This began in 1996 and involved organisations like the IMF, World Bank, WTO (trade), WHO (health), IAEA (nuclear energy), UNESCO (education, science and culture) and the UN itself. From time to time regional organizations like the OECD or the Commonwealth of Independent States have also taken part;
- (c) Above all, by examining its limitations in continuing to govern an increasingly globalised world economy in terms of legitimacy and efficiency, to the point of studying the possibility of enlarging its membership in order to take in the emerging economies.

Over the past four years, five countries (Brazil, China, India, Mexico and South Africa) have been invited regularly to these summits. In this way, and mainly with the backing of the European members of the club, the idea of the G-8 + 5 emerged, which has been more or less formalised since 2005, and even that of a possible G-14 (which would subsume the G-8 and include Egypt to represent the Arab world). However, this format has not been very satisfying, both because of the limited attention paid to non-members –be they individual countries or international organisations– and the presence of non-permanent guests. For this reason, and in response to the Asian financial crisis of 1997, the G-20 emerged in 1999. It was formed by the old G-8 and the EU (which became a full-blown

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<sup>4</sup> However, note that today there is a political G-8 and a financial G-7, to which Russia has never belonged.

member), plus Australia and 10 other countries that were considered to have emerging economies and were reasonably representative of all the world's continents: China, India, Brazil, Mexico, South Korea, Turkey, Indonesia, Saudi Arabia, South Africa and Argentina.

The fact that the G-20 represents more than two-thirds of the world's population (compared with 15% in the case of the G-8) and also a significantly larger proportion of world GDP (nearly 90%, compared with 65%) and world trade (almost 80%) and even the planet's surface area (more than 60%), has boosted its credibility. Furthermore, the presence of 20 members makes it plausible for there to be a process of give-and-take and reasonable decision-making in it. This enhances the idea of the G-20 being a less-than-perfect but acceptable alternative to the elitist G-8 or the apparently ungovernable United Nations system.

Having said this, Spain's position in relation to the G-20 as the ideal forum is far from comfortable. Despite its success in managing to be invited to the Washington and London summits, Spain is still not a formal member of the group, although in the first half of 2010 its presence is guaranteed because it will hold the rotating EU presidency and this could pave the way for it to be incorporated permanently. At the same time, although Spain was not initially a member of the Financial Stability Forum either, the diplomatic efforts made in recent months have allowed it to join that forum. The final statement issued after the G-20 meeting in Washington underlined that this organisation will play a key role in reforming the regulatory system overseeing international finances.

Therefore, and in order to avoid counterproductive naiveté (after all, Spain is still not a permanent member of the G-20) and inconsistencies (in contrast to the multilateralist and open discourse maintained so far), it would be a good idea for Spain to incorporate into its strategy the explicit question of the legitimacy of the G-20 when it comes to future reforms of the system of global governance. That said, since it would be contradictory to challenge the legitimacy of an organisation that one wants to join as a permanent member, one possible interim strategy might be to accept the G-20 as a launching pad that might be enhanced in three ways: (1) increasing the number of members to 24; (2) including the presence of three global-level international economic organisations, linked in one way or another to the United Nations system; and (3) allowing the presence of large areas of the world that are now vastly under-represented, through the **incorporation of three additional seats.**

Firstly, **increasing the number of seats to 24**, while maintaining a manageable size for this forum, might resolve the shortcoming that is not only the one that worries and harms Spain the most –in other words, its own absence from the G-20– but also one that has proved itself to be a clearly relevant issue. Indeed, it is this shortcoming that forced organisers to enlarge the two recent G-20 summits to include two countries which, even though they are among the largest and most influential at the international level (Spain, in

8<sup>th</sup> to 11<sup>th</sup> place and the Netherlands, in 16<sup>th</sup> to 19<sup>th</sup> place), were not part of a forum whose very name suggests it should comprise the world's 20 most important countries. This structural anomaly in the G-20 stems from its founding goal, which was to respond to the financial crisis of the 1990s. That crisis mainly hit the economies of Asia and Latin America, not Europe, so no country of the EU that was not already part of the G-8 joined the G-20 from the outset. Inasmuch as the G-20 is now asserting itself as the proper forum for addressing the current crisis or refashioning the world economic order –issues that do affect Europe directly– it is necessary to modify its make-up by adding Spain and possibly the Netherlands, and it is not a bad idea to consider bringing in Poland, too. Now, in order to maintain a reasonable balance between developed and emerging economies, one would have to enlarge the forum with an equal number of developing countries. Iran and Thailand, and to a lesser extent Pakistan or Egypt, might be candidates to complete the possible duos.

A second step would be to expand the current membership to include the presence of **three international organisations of global scope** and linked in one way or another to the United Nations system: the IMF (including its committees specialised in the monetary-financial and development realms), the World Bank and now also the World Trade Organisation. In this way the G-20 would get a fresh start with a greater economic projection than it had when it was formed 10 years ago. The United Nations as such should probably not join the G-20, both because it would be inappropriate for it be part of a forum that is in theory subordinate to the United Nations and simply because its current institutional structure would make such a step impossible. However, as we will discuss later, one would need to stress the need to link the G-20's work with the current social and economic institutions of the UN (or, even better, with those that emerge from a possible reform). It might also be a good idea to invite the UN Secretary General to future G-20 summits.

Finally, by **adding three new seats**, the G-20 could address large areas of the world that are still under-represented. In this way the forum would achieve a new overall legitimacy, and in particular among some economies which, while important (Malaysia, the Philippines, Singapore and Vietnam in Southeast Asia; Nigeria and Algeria in Africa; and Colombia, Venezuela and Chile in South America) are too small to have seats of their own because the goal is to ensure that the G-20 retains a size which allows it to get things done. The formula for handling these three new members could be one of the following:

- (a) Through the presence of three regional economic and political blocs that correspond to the three large areas we have mentioned above: ASEAN, the African Union and UNASUR. The precedent established by the EU's being a full-blown member of the G-20 –even though this is fully justified given the EU's effective jurisdiction over the economies of its 27 members and the relevance of the member states that do not have their own seats– makes it perfectly plausible to have these three other regionally-based international organisations join the G-20.

- (b) Through a system of three rotating *pro-tempore* members chosen under the classic UN system for filling elective posts in its institutions; in this case they would be chosen from three geo-political groupings, namely Asia-Pacific, Africa and Latin America-Caribbean.
- (c) Through a less orthodox approach using formulas that are not regional but functional. One can argue that what really matters is not so much representing continental diversity –in the end, this is more or less achieved among the current members of the G-20– but rather the plurality of interests in the supply and demand of the various factors of production. In other words, the G-20 could take in economies of secondary importance through groups of states classified on the basis of whether they export or import energy, capital, certain goods, manpower, etc (for instance, OPEC in the case of oil, the Cairns group, which is the G-20 of developing countries for farm products, the G-10, or so-called Paris Club of creditor nations and its sister organisation for debtors, the G-24, or another similar group that might be created in light of demographic factors that generate emigration, etc).

A proposal along these lines (G-24 + 3 + 3, or a G-30, if you will) would maintain a workable size. Just think that only around five seats would be added in comparison to the number of countries and organisations that were present in Washington in November 2008 and there would even be a reduction compared to those attending the London meeting in April 2009.<sup>5</sup> Such an arrangement would also be hard to criticise in terms of international legitimacy. Finally, a proposal of this type could tie in with a project to reform the UN itself, with regard to which Spain has so far behaved in a rather passive and reactive fashion. It would connect the Group of 20 with whatever new institutional structure, at least in the economic, social and environmental dimension (but without renouncing a similar model on security issues) replaces or improves the currently ineffective ECOSOC.

In view of Spain's somewhat awkward position in the current G-20, it seems it would behove the country to propose this kind of debate.<sup>6</sup> That said, regardless of the possibility of Spain making a formal proposal of the kind outlined here, or any other it might deem

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<sup>5</sup> For the enlarged G-20 meeting on 2 April, 2009, British Prime Minister Gordon Brown increased the number of invitations that were issued for the Washington meeting, adding the WTO, the OECD, ASEAN, the African Union and NEPAD (*New Partnership for Africa's Development*).

<sup>6</sup> This debate has been intense in Spanish media and political circles, but has focused mainly on the government's ability in getting invited to the successive summits. The international press and international think-tanks have reacted quite favourably to the possibility of Spain's joining the G-20 permanently on the strength of its economic achievements. See 'Redesigning Global Finance', *The Economist*, 13/11/2008, and Enrique Rueda-Sabater, Vijaya Ramachandran and Robin Kraft, 'A Fresh Look at Global Governance: Exploring Objective Criteria for Representation', Working Paper 160, Center for Global Development, Washington DC, 2009.

better, Spain should insist on linking the discussions and conclusions of the G-20, or any other group that might replace it, with world-encompassing procedural rules that are acceptable to everyone. This could be done either by having the G-20 (or G-20+) powers agree their positions at the regional level with small states (in the case of Europe it is evident that this role would be performed by the EU), or by establishing a stable connection with the United Nations system, linking this idea with the reform of the UN itself.

To sum up, having endorsed the EU and the UN so actively in its overseas actions it would be good for Spain to be especially careful with its public strategy towards the G-20. It might be that this Spanish attempt to improve the G-20, without losing its essence as a workable forum, ended up attracting no outside support. But in that case Spain would have better grounds to call for a G-20 enlargement of which it would be the sole beneficiary, as the lesser of two evils and without betraying its principles.

#### **(4) Spain wants to be a major player, but what can it contribute?**

As already mentioned, the decision to be among the world's major players is not mere fancy, but rather a way to consolidate the position that Spain has occupied over the past few decades and avert the loss of influence that would probably result from not acting at all. It should be noted that, after having overtaken Canada economically, Spain is never going to move beyond its current absolute position (the world's eighth-largest economy) and emerging countries such as Brazil, Mexico, Russia and India will not take long in overtaking Spain. For this very reason, Spain cannot base its future global influence exclusively on its relative economic weight.

In light of its political, economic and social development since the restoration of democracy in 1978, Spain should aspire to lead global initiatives that might benefit from:

- Its model of transition from an authoritarian dictatorship to a democratic state governed by the rule of law, all of this in tandem with a significant process of territorial decentralisation, social cohesion, etc. In light of this, it is striking that Spanish foreign policy has not done much in terms of explicit support for processes of democratisation, social dialogue and federalisation in other parts of the world –in particular Latin America, eastern Europe and the Mediterranean region– despite its recent authoritarian past.
- The fact that Spain is a responsible state in macroeconomic terms and an exemplary member of the euro zone. The process of nominal convergence in the 1990s was outstanding, and Spain's level of public debt as a percentage of GDP is among the lowest in the EU. This amounts to a significant exercise in collective responsibility.

- Its commendable regulatory system for banks and finances, relying on a model that is now considered exemplary. It is based on forcing banks to set aside counter-cyclical provisions, barring off-balance-sheet transactions and rigorous oversight by the Bank of Spain.
- Its ability to create large multinational companies, generally as the result of privatisation processes that have been economically successful and accepted by society (especially in comparison with those of other countries), many of which have made 'green' commitments or other pledges in favour of human rights in line with the principles of Corporate Social Responsibility. Indeed the growth of some Spanish companies and their international influence is perhaps the most noteworthy phenomenon in the process of economic opening that Spain has undergone, with leadership positions in important sectors such as banking, energy, telecoms, construction and public works, tourism, transport and retail sales outlets, among others. Furthermore, although some Spanish multinationals have been criticised abroad (mainly in some countries of Latin America, such as Argentina and Bolivia), in general their public image is quite positive. They have created major foundations and most of them are members of the UN's *Global Compact*.
- Its development of sources of renewable energy in the fight against global warming often based on innovative public-private partnerships, including the legal frameworks that make these arrangements possible. In Spain, which has an energy dependency –both on outside countries and on fossil fuels– that is well above the OECD average, and where public opinion is not keen on nuclear power, supporting renewable energy amounts to making a virtue out of necessity. For now, cooperation between the state and multinational energy companies (which is not always easy) is allowing for major progress in an area that is particularly fertile for scientific research and R+D, which is the weak point in Spain's development model. In institutional, legal and regulatory terms, Spain's model is being watched keenly from abroad (mainly by the US, where each state has its own regulations, a system which makes it hard to have a federal energy policy) and this offers an opportunity to strengthen relations between the Spanish government and the new Obama Administration.
- The growing strategic importance of Spain on account of its presence in a kind of thematic crossroads (North-South, Western World-Islam, Europe-America). At stake is much of the global strategic game, with challenges such as managing migratory flows and cross-border terrorism. What has emerged is a new situation in which Spain finds itself at the centre of many issues. This offers numerous opportunities, but also vulnerabilities. It forces Spain to take very seriously the challenge of living with immigrants and integrating them, as befits a frontier

country which has taken in more foreigners over the past decade than any other except the US.

- A firm commitment to development aid, with a view to complying with the goal of spending 0.7 % of GDP in this field. For several years Spain has been striving to make its development aid policy more consistent (as illustrated in the number of rungs it has climbed in the *Commitment to Development Index* published by the CGD). This progress has placed Spain among the donor countries with the most advanced policies, increasingly in line with the Accra Commitments on development aid. In particular, Spain is increasing its level of Official Aid, has an immigration policy that is relatively open, shows innovation in programs of debt forgiveness and swapping, and refrains from exporting arms to countries that are at war (however, it still has room to improve its trade and technology-transfer policies and increase its aid to low-income countries of Africa and Asia, although in recent years it has made progress in this realm as well).
- Other 'soft' power resources, in other words, the power of attraction through its climate, landscape, language, culture, tourism infrastructure, and artistic and other heritage. These enhance Spain's value as a meeting point and a bridge between states, cultures and diverse religions.

In relation to the latter, when it comes to encouraging institutional reforms that require broad international agreements, Spain boasts some specific features that other Western countries often lack. Above all, due to its status as a late-comer to the club of the most developed countries, the long time that has elapsed since it was an imperial power, and certain other cultural features, Spain is particularly gifted in getting along with states and regions with which 'the West' tends not to have fluid relations (Russia, Iran, Turkey, parts of the Maghreb and Latin America). There are very few EU or NATO member states which have the same comparative advantages, and it is possible that the 'Alliance of Civilizations' launched by Spain in 2004 has contributed to develop this dimension further.

All of this means it is not just that Spain seeks a leading role in the drive to guide globalisation. Rather, many of those who want globalization to be guided demand, or would certainly expect, leading roles for countries such as Spain. In short, what Spain can offer is a consolidated democracy with a high level of human development, one which shuns the idea of imposing its own values and ethnocentricity, as well as anything-goes relativism of values and complacency with regard to the imbalanced international economic and political order. Taken together, all of this could make Spain a first-rate mediating power.

In light of what we have stated above, it is clear that Spain has many valuable things to contribute to the new international governance, beyond its economic weight as measured

in terms of GDP. And that wealth of facets must be applied to specific and substantial solutions that Spain might suggest in response to the difficult financial and economic situation we are now in. Spain should aspire to contribute to resolving the crisis through proposals that are innovative but realistic, ones that are part of a broader agenda whose ultimate goal is to reform the tools and procedures of global governance.

In general terms, it seems evident that in order to resolve the crisis we need to implement a new regulatory framework which, besides guaranteeing the orderly functioning of capital flows, must also serve as a foundation for encouraging:

- Greater global macro-economic stability;
- International trade that is fairer and allows for the development of the poorest countries;
- A more efficient battle against poverty, and one that takes into account the food and water-access crises that are approaching;
- A viable post-Kyoto system for reducing CO<sub>2</sub> emissions and allowing for environmental sustainability in general;
- Truly effective global cooperation on energy;
- Effective global governance of economic migration;
- A link between all of the above and the security dimension: radicals and terrorism, demographic tensions, energy and food supplies, etc.

**(5) Spain wants to be among the big players, but is it prepared to take on the responsibility?**

In the previous pages we have argued that the magnitude of the current crisis and the overall challenges raised by the unstoppable process of globalisation require a new global contract, or pact, that features both the major and mid-sized developed countries and the emerging economies, because otherwise such an arrangement would lack the legitimacy needed to confront the big challenges of the future. This new pact or contract could be linked to a deep reform of existing international institutions, a solution which is probably more viable than trying to create new organisations from scratch.

It has also been established that Spain: (1) cannot afford to be passive in its foreign policy, given the challenges that globalization raises and Spain's own desire to promote its political and socio-economic model; (2) it is without a doubt among the five most important countries of Europe and among the 10-12 most influential in the world; (3) in its dealings abroad it should strive to project a mix of 'hard' and 'soft' power, as befits a medium-sized international actor; (4) it should aspire to act in keeping with the prominent role it enjoys as a member of the EU but also independently, in whatever forums exist or are formed in the future to shape the international order; and (5) seeks such a relevant role not out of a mere desire for prestige but rather because it boasts highly valuable skills and assets that it wishes to contribute –and defend– in the system of



global governance. In the next section we will examine whether Spain is prepared to take on the responsibility that this growing international role carries with it.

We should first point out the fact that, in the past decade or so Spanish diplomacy has failed to give priority to Spain's presence in the various selective forums of global economic and financial governance. Besides the absence we have already noted in the cases of the G-7/G-8 and G-20 (although Spain was part of the G-33 that preceded it for several months, before the Group was created in its current form in 1999), until 2009 Spain was not a member of the Financial Stability Forum either. Created in 1999, this institution, which is linked to the Bank for International Settlements, based in Basel (Switzerland), will possibly play a key role in the reform of the regulatory system for international finances and is currently presided over by a Spaniard, Jaime Caruana. Nor does Spain belong to the older G-10 (created 45 years ago by what were then the major states that provided loan resources to the IMF; it was very important in the crisis of the 1970s and today has 12 members). Additionally, Spain is still not a member of either of the two main committees of the IMF (the International Financial and Monetary Committee and the Development Committee) which participate directly in the work of the G-20. In marked contrast, all of the European countries that are part of the G-8, in addition to the Netherlands and Switzerland, are members of these four forums we have mentioned, while Belgium and Sweden belong to three of them.

Along with this specific shortcoming in Spanish foreign policy in the economic realm (to which one must add the previously mentioned relatively small quota and number of votes enjoyed by Spain at the World Bank and the IMF), there are other, more general weaknesses in foreign policy that are linked to the recurring problem of limited public funding for the traditional tasks of foreign policy and defence. The responsibility inherent in being a major player –and aspiring to a certain degree of global leadership– carries with it growing commitments in terms of financial and human resources that must be invested in Spain's diplomacy and Armed Forces. In recent years, there has been significant progress. Witness the resources earmarked for development aid, which, despite the current crisis, or even more so now, in line with the arguments of this report, should be maintained or increased. Or think of the recent announcement that Spain is considering lifting existing limits on the number of troops it can deploy abroad in overseas missions at any one time. However, the structural problems posed by Spain's limited military budget (the lowest in NATO, when measured as a percentage of GDP) or the size of its Foreign Service and number of diplomatic missions (fewer than those of the Netherlands or Sweden) must be addressed if Spain wants to achieve its goal of playing a greater role in the process of globalisation. This, as we have stated earlier, will require the right blend of 'soft' and 'hard' power.

Improving Spain's tools for obtaining and exercising influence is not just a matter of resources, however. It is increasingly clear that what is also needed is a greater effort at coordination among the various public institutions that are involved (ministries and

government agencies, Parliament, the autonomous regions and town halls, amongst others). Spain also needs greater involvement from its political parties, trade unions and business associations. It must enhance public-private sector cooperation through tools that allow for a greater say for ordinary citizens (so-called public diplomacy). And it must engage its citizens in a debate on Spain's role in the world through its think-tanks and the academic community. Indeed, in order for Spain to assume a position that better reflects its true weight and potential, it must devise a mid- and long-term strategy –a real national strategy based on a strong national consensus– and here there can be no delay.

Of course none of this alters the fact that, however much the material, human or intellectual resources for foreign policy are enhanced, coordination is improved or the public-private sector partnership is renewed, Spain's future leadership in the world will largely depend on the country's ability to carry out certain domestic structural reforms that are also long overdue. One cannot forget that an effective foreign policy depends to a very large extent on domestic strength. While Spain's main overseas asset is its success at home, its main challenge also lies in its obvious domestic shortcomings. These, as seen in the indices and rankings discussed earlier, basically fall into two areas: (1) education and scientific knowledge; and in close connection with the former, (2) the problem of low productivity, which leads to reduced competitiveness abroad and a high dependence on external financing (in other words, the structural deficit in the balance of payments). Clearly, the goal of a paper like this is not to list the type of structural reforms that are needed in these areas. But it should be noted that in every country there is an underlying connection between domestic strength and sustainable long-term economic growth and its relevance on the international stage.

Of course the ultimate goal is not to be prosperous in order to achieve a leadership role in the world; instead, foreign policy should serve Spain's domestic prosperity. For this reason, and since we know that the world's impact on Spain is unstoppable, we must take seriously the impact that Spain wants to have on the world. In other words, Spain should try to shape global processes through a foreign policy that is intrinsically linked to what is happening at home.

In short, it is clear that the economic crisis is hitting Spain very hard. But it is up to the government and Spanish society at large to tap the opportunities that the crisis makes available in order to provide the country with a significant role in the new world order, one that allows it to develop its full potential as a global player. In order to do this, besides the structural reforms needed at the domestic level, the government must define and pursue its foreign policy with greater strategic clarity, commitment and effectiveness.

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