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Summary

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Foreign Policy

Spain's global presence in the UK equal to that in all Latin America

The UK accounts for almost the same share of Spain's global presence as all of Latin America, according to a report by the Elcano Royal Institute. This explains to some extent why Spain is hoping for a 'soft' Brexit deal.

The stock of direct investment in the UK stood at €82.5 billion at the end of 2015 (latest figure), considerably higher than the UK's stock in Spain of €44.7 billion, according to Spanish figures; one-quarter of the 73 million tourists who came to Spain last year were British and Spain enjoys a hefty trade surplus with the UK.

The Elcano Global Presence Index, calculated with objective data, is based on three dimensions –economic, military and soft presence– that, in turn, comprise different variables such as energy, development cooperation, foreign investment, troops deployed and tourism, all of which reflect cross-border presence as they have a specifically external component.¹

The UK and Latin America account for 13.5% and 13.6%, respectively, of Spain's total global presence (see Figure 1).

¹ See my June 2017 Working Paper on Global Spain (in English) for much more detail at <http://www.realinstitutoelcano.org/wps/wcm/connect/57d01e71-349f-413d-8c6e-cd0f3863d534/WP8-2017-Chislett-Global-Spain-economic-military-soft-power.pdf?MOD=AJPERES&cacheid=1498814484125> and this analysis (in Spanish) for details of Spain's presence, http://www.realinstitutoelcano.org/wps/portal/rielcano_es/contenido?WCM_GLOBAL_CONTEXT=/elcano/elcano_es/zonas_es/ari85-2017-olivie-gracia-gomariz-espana-en-el-mundo-analisis-indice-elcano-presencia-global-2016.

Figure 1. International distribution of Spain’s global presence, 2016, by main countries (% of total presence)

	% of total		% of total
UK	13.5	Morocco	1.1
France	7.5	Canada	1.0
US	7.3	Russia	0.8
Germany	7.2	Argentina	0.8
Italy	4.1	Japan	0.7
Turkey	4.0	Colombia	0.7
Portugal	3.7	India	0.5
Brazil	3.0	Saudi Arabia	0.4
Mexico	2.8	South Korea	0.4
China	2.4	Algeria	0.4
Belgium	1.8	Greece	0.4
Venezuela	1.5	South Africa	0.2

Source: Elcano Royal Institute.

Spain has remained in 12th position out of 100 countries in the overall index since 2014.

As one would expect, Europe accounts for the largest share (61.1%) of Spain’s total global presence (see Figure 2). This presence has remained steady since 2005, while that in Asia-Pacific has risen (from 4.4% to 7%).

Figure 2. Regional distribution of Spain’s global presence, 2005-16 (% of total presence)

	2016	2010	2005
Europe	61.1	58.4	61.6
Latin America	13.6	16.1	11.5
North America	8.4	7.2	6.4
Maghreb and Middle East	7.2	5.8	4.6
Asia-Pacific	7.0	5.1	4.4
Total	100	100	90.4(1)

(1) It was not possible to disaggregate all of Spain’s global presence in 2005.

Source: Elcano Royal Institute.

Close to 40% of Spain’s presence in Europe is economic (see Figure 3).

Figure 3. Regional distribution of Spain's global presence by dimensions, 2016 (% of total global presence)

	Economic presence	Military presence	Soft presence
Europe	38.2	6.2	16.8
Latin America	9.9	0.0	3.7
North America	6.3	0.0	2.1
Asia-Pacific	2.1	0.0	4.9
Maghreb-Middle East	2.2	3.4	1.6
Sub Saharan Africa	0.6	1.3	0.7

Source: Elcano Royal Institute.

The region that accounts for the largest share of Spain's global presence is Madrid (29.1%, much higher than its contribution to Spain's GDP), followed by Catalonia (see Figure 4).

Figure 4. Contribution to Spain's global presence by main regions (% of total) and that to Spain's GDP (% of total), 2005-16

	2016	2010	2005	GDP(2016)
Madrid	29.1	34.8	30.2	18.9
Catalonia	19.6	18.3	18.5	19.0
Andalusia	10.1	8.6	10.1	13.3
Valencia	7.1	6.7	7.8	9.4
Basque Country	6.5	6.6	6.9	6.2
Galicia	4.8	4.5	4.8	5.2

Source: Elcano Royal Institute.

Domestic Scene

Catalonia comes under direct rule and faces a snap election

The government's hopes of restoring some degree of normality to Catalonia, following the regional parliament's illegal declaration of independence and Madrid's consequent imposing of direct rule, partly rest on the anti-independence parties reversing the gains of their rivals in the 2015 election and winning a majority of seats in the snap Catalan poll on 21 December.

The Catalan parliament and government have been dissolved and some former members of it and two key leaders of the independence movement jailed. The local police force, the Mossos d'Esquadra, is under the command of the national police and

its head, Josep Lluís Trapero, removed from the post accused of sedition for failing to carry out judicial orders in the build-up to the referendum. TV3, the Catalan TV station, which is a mouthpiece for the pro-independence camp, has, however, not been taken over.

The pro-independence parties, an unholy alliance of conservative nationalists (PDeCAT), left-wing radicals (ERC) and anti-capitalists (CUP), won 72 of the 135 seats in the Catalan parliament (47.8% of the votes) in the 2015 election, while the anti-nationalist parties, the Popular Party, the Socialists and the centrist Ciudadanos, won 52 seats (39.1% of the vote). The 11 other seats were won by Catalunya en Comú, a left-wing coalition.

If the pro-independence parties win a majority again, albeit a slim one, they will probably view it as a fresh mandate to continue to push their cause. A great deal is riding on the election.

The heavy-handed police response to those who voted in the referendum on 1 October and subsequent events, including the flight of Carles Puigdemont, the Catalan regional Premier, and four of his cabinet colleagues to Belgium in a bid to internationalise the conflict, and the jailing of independence leaders, have fractured Catalan society and divided families.

Madrid has issued a European arrest warrant, an EU instrument, for the five in Belgium on charges of rebellion, sedition and misuse of public funds that could land them in jail for 25 years. Puigdemont claims they would not be given a fair trial in Spain. His strategy has been to cast 'reasonable doubt' on the quality of Spain's democracy and, in particular, on the independence of the judiciary.

The five are not expected to appear in a Belgian court to refute the extradition arguments until at least 4 December, by when campaigning for the Catalan election will have started. Puigdemont intends to run for a second term.

The pro-independence parties claim that those imprisoned are political prisoners, something that has outraged those who were jailed and sometimes tortured for opposing the 1939-75 Franco regime.

Spain is a pluralist democracy and is ranked high in all the recognised barometers, such as the democracy index of the *Economist Intelligence Unit*, which places it 17th out of 176 countries, ahead of the US and Italy, for example, and not far behind France and Germany.

The European Commission has made it very clear that the crisis in Catalonia is a Spanish problem and sees no reason to get involved. 'If we allow Catalonia... to separate, others will do the same', warned European Commission President Jean-Claude Juncker.

Next month's election is overwhelmingly supported by the unionist parties, but not by those in favour of independence (see Figures 5 and 6), although they are running in the

election. These parties continue to contend that the Catalan parliament, and not the national parliament in Madrid, has the final say.

Figure 5. Elections in December as the solution to the Catalan problem (%)

	No	Yes
Republican Left of Catalonia (ERC)	74	32
Catalan European Dem Party (PDeCAT)	65	35
Popular Unity Candidacy (CUP)	82	18
Catalonia in Common	42	58
Catalan Socialists	18	82
Ciudadanos	15	83
Popular Party	19	75

Source: Metroscopia.

Figure 6. Identity sentiment by political party (%)

	Only Catalan	More Catalan Than Spanish	Equally Catalan and Spanish	More Spanish than Catalan	Only Spanish
ERC	38	43	16	1	1
PDeCAT	38	56	6	0	0
CUP	64	29	7	0	0
Cat. en Comú	9	30	47	2	0
PSC	0	4	80	12	2
Ciudadanos	0	0	83	15	2
Popular Party	0	0	75	12	13
Total	19	25	46	5	3

Code: ERC (Republican Left of Catalonia); PdCAT (Catalan European Democratic Party); CUP (Popular Unity Candidacy); Cat en Comú (Catalonia in Common); and PSC (Catalan Socialist Party).

Source: Metroscopia.

In a separate development, Madrid says it has proof that Russian-based groups used online social media to spread ‘misinformation’ related to Catalonia’s independence referendum.

What happens next? While supporters of the Socialists and Ciudadanos support reforming the Constitution and giving increased autonomy to Catalonia, the Popular

Party is more reluctant, although it has agreed to the Socialists' request to study reform (see Figure 7). The pro-independence ERC, PDeCAT and CUP are overwhelmingly in favour of secession.

Figure 7. Three options for Catalonia by party preferences (%)

	ERC	PDeCAT	CUP	Cat en Comú	PSC	Ciud	PP	Total
In favour of Catalan independence	69	47	79	5	-	-	-	29
In favour of Catalonia remaining in Spain as now	1	3	-	4	24	61	94	19
In favour of Catalonia remaining in Spain with increased autonomy	23	50	21	91	76	39	6	46

Code: ERC (Republican Left of Catalonia); PDeCAT (Catalan European Democratic Party); Cat en Comú (Catalonia in Common); and PSC (Catalan Socialist Party).

Source: Metroscopia.

More than half (55%) of respondents in a survey believe there should be a general election and not just one in Catalonia. The Popular Party would again win the election, but with a much smaller slice of the vote (see Figure 8). Ciudadanos' share of the vote would rise and be on a par with that of the Socialists, while that of Podemos would decline significantly.

Figure 8. Voter intention (% of valid votes)

	20/XII/15 election	26/VI/16 election	11/XI/16	9/III/17	4/VI/17	30/VII/17	12/XI/17
PP	28.7	33.0	35.7	31.2	25.9	26.9	26.1
Socialists	22.0	22.7	17.9	19.0	22.8	22.0	22.7
Podemos	20.7	21.1 (1)	23.1 (1)	21.5	19.2	19.7	14.7
Ciudadanos	13.9	13.0	13.0	16.5	18.7	18.5	22.7

(1) Unidos Podemos as of the June 2016 election.

Source: Metroscopia.

Second-highest life expectancy among OECD countries

Spain's population has the second highest life expectancy among the world's 35 richest countries that comprise the OECD.

The average number of years lived is 83, nine months lower than Japan, which tops the ranking (see Figure 9). Women's average life expectancy is 85, as they live some five years more than men.

Figure 9. Average life expectancy at birth (years)

Ranking	Years
1. Japan	83.9
2. Spain	83.0
France	82.4
Sweden	82.3
Portugal	81.2
UK	81.0
Germany	80.7
OECD	80.6
US	78.8

Source: OECD.

Thanks to the universal social security system created over the last 40 years, the comparatively healthy diet and lifestyle, Spain's life expectancy has risen by more than 10 years.

Spain performs well on four key health indicators. The country is ranked 21st in the OECD's obesity ranking (16.7% of the population have a body mass index of more than 60 compared to 38.2% in the US), 19th in alcohol consumption (9.3 litres consumed on average a year compared to 12.6 in Belgium), 26th in exposure to PM2.5 particles that produce respiratory and cardiovascular illness and 6th in tobacco (23% of the population smoke every day).

Spain's life expectancy improvement is singled out in the OECD's latest How's Life report. Relative to other OECD countries, Spain's average performance across the different wellbeing dimensions is, however, mixed (see Figure 10).

Figure 10. Change in Spain's average well-being over the past 10 years

Dimension	Description
Income and wealth	In 2015, household net adjusted disposable income was 6% lower than in 2005, one of the largest falls in the OECD over the decade. Household net wealth recorded a cumulative decrease of 3% between 2008 and 2011 (in real terms).
Jobs and earnings	The employment rate fell over the past 10 years, with a moderate improvement in 2014. Despite dropping from 2009 to 2014, real earnings have improved overall in the last decade, and are now 7% higher than in 2005. Labour market insecurity peaked in 2012, and despite falling slightly since then, remains three times higher than in 2007. Long-term unemployment has risen since 2007, peaking in 2013

	at 13%. By contrast, the incidence of job strain has fallen from 49% in 2005 to 41% in 2015.
Housing conditions	Spending on housing costs (as a proportion of household disposable income) has risen from 18.2% in 2005 to 21.8% in 2015 –one of the largest increases in the OECD–. On the other hand, the share of people living in dwellings without basic sanitary facilities has remained stably low since 2005-10.
Work-life balance	The share of employees working 50 hours or more per week has fallen by 4 percentage points in the past decade, a steeper decline than the 0.9 point fall recorded for the OECD average.
Health status	Despite a slight fall between 2014 and 2015, life expectancy has risen by nearly 3 years overall since 2005 –a larger improvement than the OECD average–. The percentage of adults reporting to be in ‘good’ or ‘very good’ health has increased by 6 points since 2005, to a level just above the OECD average.
Education and skills	The 10-year change in upper secondary educational attainment cannot be assessed, due to a recent break in the data. However, between 2014 and 2016, attainment rates in Spain increased by 1.7 percentage points.
Social connections	The share of people having relatives or friends whom they can count on to help in case of need has been broadly unchanged since 2005-07, in contrast to the slight decline recorded for the OECD average.
Civic engagement	In line with the OECD average trend, voter turnout has fallen in Spain over the past decade. In the 2016 general elections, the share of votes cast among the population registered to vote was 70%, 5 points lower than in 2008 and 3 points lower than in 2015, but 1 point higher than in 2011.
Environmental quality	Satisfaction with local water quality has remained relatively stable since 2005-07, and is slightly below the OECD average. Despite increasing slightly from 2010 to 2011, annual exposure to PM2.5 air pollution has fallen by 9% overall since 2005.
Personal security	The rate of deaths due to assault has gradually fallen over the last 10 years, while the share of people who report feeling safe when walking alone at night has improved from 65% to 83%.
Subjective well-being	People’s life satisfaction has fallen gradually during the last 10 years, from an average of 7.1 to 6.4 (measured on a 0-10 scale). This decline is three times as large as the OECD average decline.

Source: How’s Life 2017, OECD.

The Economy

Bank of Spain warns of economic risks of Catalan crisis

Spain’s painfully-won economic recovery, achieved at the cost of massive unemployment, is under threat from the crisis in Catalonia, according to reports by the Bank of Spain and other institutions.

The warning was followed by Barcelona losing its bid to be the new host of the European Medicines Agency (EMA), which is to move from London to Amsterdam because of Brexit.

The Catalan capital was one of the 19 contenders for the EMA, a coveted spoil because of its 900 well-paid staff and its role at the heart of the EU drug approval system and the R&D industry it supports. The agency also drives tourism as it attracts some 30,000 experts to meetings.

Dolors Montserrat, Spain's Health Minister, said the Catalan independence movement had dented Barcelona's chances.

The region plays a key role in the Spanish economy. Its GDP is slightly larger than Portugal's and it generates one quarter of Spain's total exports (see Figure 11).

Figure 11. Catalonia accounts for one-fifth of Spain's economy

Catalonia accounts for one-fifth of Spain's economy

Share of Spain's total gross domestic product, by region



Note: GDP shares are nominal estimates for 2016, in euros.
 Source: Instituto Nacional de Estadística, accessed Oct. 27, 2017.

PEW RESEARCH CENTER

More than 2,400 companies have located their legal headquarters in other parts of Spain since the Catalan parliament illegally declared an independent state. Occupancy in

Barcelona's hotels was down 7% in October and sales in shops in the region were down 30% in October.

The Bank of Spain said the economy could lose between 0.3 and 2.5 points of GDP in two years (2018-19), depending on how long the crisis lasts and its impact on consumption, investment, employment and financing.²

Under its benign scenario, the worst of the uncertainty would end after the snap election on 21 December, called by the central government under its imposition of direct rule of Catalonia. The accumulated cost to the economy would be 0.3 points of GDP or around €3 billion.

The Bank of Spain does not say this, but the scenario assumes that the anti-nationalist parties would reverse the situation in the previous Catalan parliament and win more seats than the pro-independence parties.

In the worst-case scenario, following a fresh victory by the pro-independence bloc or a continued stand-off with Madrid in the event of not winning the election, up to 60% of the projected growth for 2018 and 2019 could evaporate.

The Bank of Spain is currently holding to its GDP growth forecasts of 3.1% this year, 2.5% in 2018 and 2.2% in 2019. Luis de Guindos, the Economy Minister, has already lowered growth from 2.7% to 2.3% next year.

Prime Minister Mariano Rajoy told Cope radio that if the Catalan situation calms down the Spanish economy 'could grow five or six tenths more next year'.

The Bank of Spain is careful to emphasise that its scenarios are hypothetical and depend on a set of assumption, and should not be construed as economic growth forecasts. 'They serve to evidence the significant economic risks and costs of the situation caused by the independence initiatives in Catalonia'.

BBVA, the second-largest Spanish bank, and Fiscal Authority (Airef) have made similar warnings to the Bank of Spain's.

The political uncertainty has forced the minority central government to postpone its push in parliament to approve the 2018 budget. In its place, it has rolled over the 2017 budget, which does not guarantee meeting the deficit target agreed with the European Commission for next year (2.2% of GDP). Spain is due to bring the deficit to under the EU benchmark of 3% for the first time in a decade.

² The full report on the Spanish economy is available at https://www.bde.es/f/webbde/Secciones/Publicaciones/InformesBoletinesRevistas/InformesEstabilidadFinancera/17/IEF_Noviembre2017Ing.pdf.

28th in Global Innovation Index, 22nd in European Innovation Scoreboard

Spain remained in 28th position out of 127 countries in the Global Innovation Index (GII) drawn up by Cornell University, INSEAD, and the World Intellectual Property Organization, but with a slightly lower score (see Figure 12).

Figure 12. Global Innovation Index

Ranking	Score
1. Switzerland	67.7
4. US	61.4
5. UK	60.9
8. Finland	58.5
9. Germany	58.4
15. France	54.2
28. Spain	48.8
29. Italy	47.0

Source: Global Innovation Index.

The GII aims to capture the multi-dimensional facets of innovation by providing a rich database of detailed metrics.

In the European Innovation Scoreboard (EIS), Spain was ranked 21st out of 36 countries (see Figure 13). Relative to the EU, Spain's performance has been declining.

Figure 13. European Innovation Scoreboard

Ranking	Score
1. Switzerland	164.6
2. Sweden	143.6
6. UK	125.3
7. Germany	123.4
15. France	109.2
EU average	102.0
21. Spain	78.3
23. Italy	47.0

Source: European Commission.

The new measurement framework for the EIS is composed of 10 dimensions, including a new dimension on 'innovation-friendly environment'. Last year's dimension on economic effects has been split into two separate dimensions measuring the impact of innovation on employment and sales. The number of indicators has increased from 25 to 27.

Unemployment drops to 16.4%, the lowest level since 2008...

The jobless rate continued to fall to 16.4%, the lowest level since 2008, the year the economy began its long decline, and more than 10 points below its peak in 2013, but it is still double the EU average.

Spain now has just over 19 million jobholders, the highest figure since the third quarter of 2009, but 1.5 million below the high point.

A total of 235,900 jobs were created in the third quarter, one-quarter of them in the public sector compared with one in 25 in the same period of 2016. The service sector, in particular the buoyant tourism industry, created 236,400 jobs.

The Balearic Islands, thanks to tourism, became the first autonomous region since Spain's economic crisis to record an unemployment rate of below 10%.

Some workers who lost their jobs in the construction industry, following the bursting of a massive property bubble, are finding employment in tourism. There were 1.7 million people working in tourism in the third quarter of 2008, close to 400,000 more than in 2008, while those in construction totalled 1.1 million, down from 2.2 million.

The proportion of jobholders on temporary contracts in the third quarter increased to 27.4%, among the highest in the EU.

... Record tourists in the first nine months...

More than 66 million tourists visited Spain in the first nine months, 10% more year-on-year, setting the country on course to receive around 84 million for the whole year (10 million more than in 2016).

The largest number of tourists were British (15.4 million), followed by Germans (9.6 million) and the French (9.3 million). The number of British tourists was 7.8% higher than in the first nine months of last year.

Sterling's depreciation against the euro since the UK's decision to leave the EU, as of 2019, which is making holidays more expensive, is not hitting, as some forecast, tourism from the UK to Spain.

... Advances in Ease-in-Doing-Business ranking

The government's tax and corporate governance reforms, among other measures, since 2012 helped push Spain up the World Bank's latest Ease-of-Doing-Business ranking

from 32nd to 28th position out of 190 countries, further narrowing the gap with the best performers (see Figure 14).

Figure 14. Ease-of-Doing-Business (DB) ranking and distance to frontier

Ranking in DB 2018	Distance to frontier in 2018 DB (1)	Distance to frontier in 2010 DB (1)
1. New Zealand	86.55	88.84
6. US	82.54	85.72
7. UK	82.22	83.58
20. Germany	79.00	79.49
28. Spain	77.02	68.18
31. France	76.13	69.79
46. Italy	72.70	66.12

(1) The distance to frontier (DTF) measure shows the distance of each economy to the 'frontier', which represents the best performance observed on each of the indicators across all economies in the Doing Business sample since 2005. An economy's distance to frontier is reflected on a scale from 0 to 100, where 0 represents the lowest performance and 100 represents the frontier.

Source: World Bank, Doing Business 2018.

For the first time since 2008, Spain is among the top 30 countries, ahead of France (31st), the Netherlands (32nd), Switzerland (33rd), Japan (34th) and Italy (46th). In 2011, it was ranked 44th.

The ranking is based on 10 categories. Spain rose 36 positions in obtaining electricity, eight in protecting minority interests and three in paying taxes (see Figure 15).³

³ The country report for Spain is available at <http://www.doingbusiness.org/reports/global-reports/-/media/WBG/DoingBusiness/documents/profiles/country/ESP.pdf>.

Figure 15. Spain: Ease-of-Doing-Business rankings by category

	Rank out of 190 countries
Starting a business	86
Dealing with construction permits	123
Getting electricity	42
Registering property	53
Getting credit	68
Protecting minority investors	24
Paying taxes	34
Trading across borders	1
Enforcing contracts	26
Resolving insolvency	29
Overall ranking	28

Source: World Bank, Doing Business 2016.

Corporate scene

Ferrovial consortium wins €1.15 billion contract in Australia

A consortium led by Cintra, a subsidiary of Ferrovial, was awarded a €1.15 billion contract to upgrade and maintain more than 700km of roads in West Melbourne. The 20-year concession will run from 2020, the year when the work is due to be completed.