

Inside Spain Nr 156

28 November - 20 December 2018

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Summary

China promises to re-balance trade ties with Spain.
Far-right enters Andalusian parliament, dislodging the Socialists from decades of rule.
Jailed Catalan secessionists on hunger strike, one hospitalised.
Spaniards positive about their 40 years of democracy, with some misgivings.
Government plans military hardware spending of €7.3 billion.

Foreign Policy

China promises to re-balance trade ties with Spain

Chinese President Xi Jinping began a four-country tour in Spain where he agreed to do more to achieve a better-balanced trade relationship. Spain recorded a €19.4 billion deficit with China last year.

Among the agreements signed was one enabling Spain to export on-the-bone legs of Iberian ham, a popular product, and greater cooperation between the two countries' scientists in the field of advanced materials.

Madrid, however, did not sign on to China's One Belt, One Road initiative that seeks to improve transport links between Asia and Europe, as it prefers to work with the EU in developing a parallel network of infrastructure to connect it to Asia. Poland and Greece have signed up.

The government also does not see many opportunities for Spanish companies in the Chinese mega project, even though Spain has world-class construction and engineering firms. It also views the tendering system as not very transparent and tending to benefit Chinese companies.

China is Spain's largest trading partner outside the EU. Two-way trade rose from US\$100 million in 1979 to US\$30 billion in 2017.

There are some 600 Spanish companies in China, mostly small ones, but multinationals such as Telefónica, Inditex (owner of Zara) and the banks Santander and BBVA also operate in the country.

The UK's exit from the EU enhances Spain's importance in the bloc, making it more attractive to Beijing, which views the country as more friendly than other European

nations. Spain, for example, was one of the countries that did not back a letter about China’s human rights record in the restive Xinjiang region.

‘We hope and believe that Spain will continue to play a positive role in the EU for the sound and steady growth of China-EU relations’, Xi Jinping wrote in an article in Spain’s *ABC* newspaper.

Elcano survey shows significant changes by Spaniards on foreign policy in last 40 years

Forty years after approving overwhelmingly in a referendum their new democratic constitution, Spaniards’ foreign policy priorities and attitudes have changed substantially.

Just over 40% of Spaniards are interested in foreign policy matters today compared with 29% in 1984, according to the first survey on the subject by the state-funded CIS, and the priorities have changed. The main priority now is combating climate change; it was defending national security and the integrity of Spain in the 1979 CIS survey, when the Basque terrorist group ETA was in action (see Figure 1).

Figure 1. Spaniards’ foreign policy priorities, 1979 and 2018

1979 ⁽¹⁾	%	2018 ⁽²⁾	0-10
Defending national security and territorial integrity	43	Combating climate change	7.4
Protecting Spaniards working abroad	42	Combating jihadist terrorism	6.1
Foster trade with other countries	34	Aid for developing countries	5.8
Ensure the supply of oil and raw materials	31	Combating narco trafficking	5.5
Ensure compliance with human rights	29	Supporting the interests of Spanish companies abroad	5.0
Help to reduce the gap between rich and poor countries	21	Ensuring the supply of gas, oil and electricity	5.0
		Combating the Islamic state	4.4

(1) Choose the three most important priorities. (2) Which is the most important objective?

Source: CIS and Elcano Royal Institute.

The presence of multinationals in Spain is much more positively viewed (78% in 2018 as against 29% in 1979). Support for belonging to the EU, which Spain joined in 1986, remains high at 83% (87% for those over the age of 65 and 76% for those under 29) and also for remaining in NATO (75%).

Domestic scene

Far-right enters Andalusian parliament, dislodging the Socialists from decades of rule

The Socialists' 36-year rule of Andalusia ended when the far-right VOX came from nowhere to win 11% of the vote in the region's snap election and 12 of the 109 parliamentary seats. Coupled with the 26 seats won by the conservative Popular Party (PP) and the 21 by the liberal Ciudadanos (C's), the Socialists are unlikely to remain in office (see Figure 2).

Figure 2. Results of elections in Andalusia, 2018 and 2015

	2018			2015		
	Seats	Votes	% of votes	Seats	Votes	% of votes
Socialists	33	1,009,243	27.95	47	1,411,278	35.41
Popular Party	26	749,275	20.75	33	1,065,684	26.74
Ciudadanos	21	659,631	18.27	9	369,896	9.28
Adelante Andalucía ⁽¹⁾	17	584,040	16.18	–	–	–
Vox	12	395,978	10.97	–	18,422	0.46
Podemos	–	–	–	15	592,133	14.86
IULV-CA	–	–	–	5	274,426	6.89

(1) Adelante Andalucía is a coalition of En Andalucía Podemos, Izquierda Unida, Izquierda Andalucista and Primavera Andaluza.

Source: Junta de Andalucía.

Until then, Spain, to the surprise of many, had bucked the nationalist surge that has swept across the EU, with, for example, France's anti-immigrant and anti-system National Rally and Germany's AfD, despite having the conditions for such a party including very high unemployment and a large foreign community. The anomaly is viewed as a legacy of the 39-year right-wing dictatorship of General Francisco Franco, who died in 1975.

The election was called after Ciudadanos withdrew its parliamentary support for the minority Socialist government. The Socialists won the most seats (33), but it was 14 fewer than in 2015 and their worst performance in their stronghold since 1982, when Andalusia held its first election under Spain's system of autonomous regions.

The PP and C's were in negotiations to form the new government with VOX's parliamentary support or perhaps sharing power with it. Andalusia is the only region in Spain that has not known a political alternative. The Socialists' loss of power could mean that up to 9,000 jobs in the gift of the Andalusian government or of companies and agencies it runs will change. They are political appointments.

Had the Socialists won enough seats to continue governing Andalusia, the minority Socialist government of Pedro Sánchez at the national level might have been more emboldened to call a snap election as it only has 84 of the 350 seats in Congress and its room to approve laws and the 2019 budget is being severely restricted.

That the political earthquake caused by VOX, created five years ago by Santiago Abascal, a former PP politician, should happen in Andalusia, which provides 20 of the Socialists' seats in Congress, surprised many. As well as the fatigue with having been ruled by the same party for so long and the corruption scandals that have engulfed the Socialists, the region has an unemployment rate of 23% (8pp above the national average) and a very large immigrant community, particularly from non-EU countries.

The one-year mega trial in Andalusia of two of the region's former Socialist Premiers and 19 other former officials accused of massive fraud ended this month. Sentences are expected by next summer. The prosecutor estimates that €741 million of public funds earmarked for the unemployed and retired workers under a scheme known as ERE were improperly used.

VOX's anti-immigrant discourse resonated in a region that received more than 53,000 illegal immigrants in the first 11 months of this year (the largest number in all of the EU), after crossing the Mediterranean from North Africa (see Figure 3). Another key factor was VOX's defence of Spain's unity in the face of the illegal push for independence in Catalonia, which shows no signs of abating, and the perception that the Socialists have not been firm enough with the secessionists.

Figure 3. Why did you vote for VOX? (1)

	%
Because of its discourse on immigration	41.6
In order to vote the Socialists out of power	34.2
Because it defends the unity of Spain	33.7
In order to halt secessionists in Catalonia	28.0
Because it wants to get rid of the system of autonomous governments	27.0
Because the Popular Party has let me down	24.9
Because it defends national symbols	12.5
Because of its proposal to repeal the Law on Gender Violence	12.0
Because of its economic proposals	11.1
Because it defends the traditional family	7.3
Because of its Roman Catholic values	2.8
Because I like the main candidate	2.3

Note: Survey conducted only among those who voted for VOX on 2 December.

Source: 40dB.

VOX's first success was largely at the PP's expense. That party lost 316,409 votes and seven seats. The Socialists lost 402,035 votes, which mostly went to C's. Their votes increased by 289,735 to 659,631. The voter turnout of 58.6% was the lowest since 1990 and tended to benefit the right.

Just as Podemos split the left when it emerged in 2015 at the national level and took away votes from the Socialists, so VOX is splitting the right, albeit so far only at a regional level.

Eight of VOX's 12 seats came from the province of Almería. Thirty per cent of votes in the town of El Ejido, which reportedly has the second-highest per capita income in Spain and where a large part of the wealth is generated by non-EU immigrants working in agriculture in 40°C heat in the summer, went to VOX.

If these migrants returned to their countries, El Ejido's economy would collapse as Spaniards do not want their low-paid jobs.

VOX now has its sights set on next May's European and municipal elections and polls in Spain's other regions. The evidence shows that once a new party is installed in a parliament, be it regional or national, support for it tends to grow. This has been the case of Cs, which first entered a parliament (Catalonia's in 2006) and then the national parliament (2015).

Jailed Catalan secessionists on hunger strike, one hospitalised

Four of the nine jailed Catalan leaders, who have been in pre-trial detention for more than a year and are due to go on trial in January over last year's failed push for the region's independence, went on hunger strike early this month claiming they were not being treated fairly by the justice system.

Jordi Turull, one of the four and a former Catalan government spokesman, was hospitalised on 14 December. The other three are Jordi Sànchez, the former head of the grassroots Catalan National Assembly, Josep Rull, the former Infrastructure Minister, and Joaquim Forn, the former Interior Minister. They stopped their strike on 20 December.

They accuse the Constitutional Court of unduly delaying their numerous appeals in order to prevent their cases reaching the European Court of Human Rights.

The four sent letters to more than 40 European heads of state and government protesting that they suffered from 'a judicial process that severely violates our fundamental rights, including the right to the presumption of innocence'.

The Supreme Court held a preliminary hearing ahead of the trial of a total of 18 former Catalan officials and activists accused of rebellion, sedition and misuse of public funds for their part in the unconstitutional referendum and an illegal unilateral declaration of independence. Carles Puigdemont, the former Premier of Catalonia who went into self-imposed exile in Belgium last year, would be arrested and also put on trial if he returned to Spain.

Joaquim Torra, Puigdemont's ultra nationalist successor, raised the temperature at a pro-independence event in Brussels when he urged Catalan secessionists to follow the 'Slovenian route' to independence. He was roundly criticised within and outside the independence movement for seemingly condoning violence as more than 60 people were killed in Slovenia's 1991 struggle for independence, which triggered the much more bloody break-up of Yugoslavia.

In Madrid, Interior Minister Fernando Grande-Marlaska warned the Catalan authorities that national police would be sent to their region if they continued to tolerate separatist blockades. This followed so-called Committees to Defend the Republic (CDR) blocking the AP-7 motorway for 15 hours, in solidarity with the jailed Catalans.

Spaniards positive about their 40 years of democracy, with some misgivings

Spaniards are generally content with the democracy that followed the approval in a referendum 40 years ago this month of the constitution that sealed the transition from the 39-year dictatorship of General Francisco Franco to political, economic and social freedoms.

More than 70% of respondents said the political system arising from the 1978 Constitution has been 'positive', close to two-thirds said Spaniards lived better today and the country has a greater weight in the world.

Spain has been profoundly changed during this period, as shown in Figure 4.

Figure 4. 40 years on: Spain in a nutshell

	1978 ⁽¹⁾	2018 ⁽¹⁾
Total population, million	37.0	46.7
Foreign population, million ⁽²⁾	0.17	4.7
Per capita income, US\$ ⁽³⁾	7,883	38,285
Employment by sector, % of total		
Agriculture	20.3	4.3
Industry	27.4	14.0
Construction	9.5	6.0
Services	42.8	75.6
Life expectancy at birth, years	74.3	83.2
Population aged 15 and under, % of total	26.7	15.4
Population aged 65 and over, % of total	10.7	19.1
Fertility rate, births per woman	2.54	1.33
Illiteracy rate, over 16s, % of total	9	1.75
University educated, % of over 16s	3.6	28.2

(1) Or latest available.

(2) Excluding foreigners who became naturalised Spaniards.

(3) At purchasing power parity.

Source: the author, Elcano Royal Institute.

Close to half of respondents (46%) said the system of autonomous regions has been positive and the same proportion did not believe the Historical Memory Law would close the wounds of the 1936-39 Civil War and the dictatorship that followed (see Figure 5). Just over half said today's politicians were less consensus-seeking than the politicians during the transition. That period was an exceptional one as virtually all parties came together in the common cause of a peaceful transition.

Figure 5. Indicate whether you are in agreement or not with the following statements

	Agree	Neither agree or disagree	Disagree
The role of King Juan Carlos was crucial for attaining democracy	71.8	3.2	21.0
The political system arising from the 1978 Constitution has been positive for Spain	71.4	6.7	18.0
Spain has a greater weight in Europe and in the world	68.9	3.9	24.5
Spaniards live better today than during the transition	65.9	7.1	25.8
Politicians during the transition were better than today's	65.5	9.0	21.1
The problems facing Spain today are more serious than then	52.3	11.6	33.1
The autonomous regions have been positive for Spaniards	45.7	5.2	46.2
The Historical Memory Law seeks to close the wounds of the past	43.2	6.4	46.4
Today's politicians seek consensus more than those during the transition	33.0	6.8	52.9

Source: GAD3.

The illegal two-year push for independence in Catalonia, which shows no signs of letting up, has, in particular, enraged a large swathe of the population.

The monarchy, re-introduced by Franco with King Juan Carlos, who took over as head of state in 1975, is recognised by 50.7% of respondents as having played a 'very important' or 'fairly important' role in the stability of the constitutional system. Juan Carlos I abdicated in favour of his son, Felipe VI, in 2014.

All four of the main political parties, except for the radical left Unidos Podemos, regard the monarchy's contribution as very or fairly important –80% in the case of those who vote for the Popular Party, compared with 9% of Unidos Podemos's supporters (see Figure 6)–. Podemos actively promotes the abolition of the monarchy and the re-introduction of a (third) republic.

Figure 6. How important is the monarchy's contribution to the stability of the constitutional system? By party allegiance (%)

	Very important	Fairly important	Of little importance	Not important
Popular Party	38	42	12	6
Socialists	15	35	31	18
Unidos Podemos	3	6	28	61
Ciudadanos	24	46	17	11

Note: the figures do not add up to 100 as they exclude those who did not answer or did not know.

Source: GAD3.

The 2nd Republic was established in 1931 after King Felipe's great-grandfather, Alfonso XIII, went into exile and ended in 1939 with the victory of Franco's forces in the Civil War.

Unidos Podemos is also the party most in favour of a total reform of the 1978 Constitution (see Figure 7). All parties, however, agree that specific aspects should be reformed.

Figure 7. Is it necessary to reform the constitution? If so, all of it or just some specific aspects? By party allegiance (%)

	Total reform	Specific aspects	Reform unnecessary
Popular Party	7	65	25
Socialists	22	66	8
Unidos Podemos	33	65	–
Ciudadanos	12	72	15

Note: the figures do not add up to 100 as they exclude those who did not answer or did not know.

Source: GAD3.

The Popular Party (PP) and the Socialists, the two main parties, have repeatedly called for reforms of the Constitution, but have never got beyond mere words. The PP Prime Minister José María Aznar, for example, urged in 1994 a reform of the Senate in order to make it a chamber representing the 17 autonomous regions, but when the PP was in the opposition in 2005 it opposed the reform.

The Constitution defines the Senate as '... a chamber of territorial representation' but it has failed to meet its function. The upper chamber of parliament consists of 265 senators, 57 of whom are appointed by the regional parliaments and the rest by popular vote. It has almost no legislative powers and is essentially a rubber-stamp chamber, which has become an 'elephants' graveyard' where the PP and the Socialists send their older leaders at the end of their political careers.

Had the Senate become a fully-fledged chamber representing the regions, capable of defusing tensions between the centre and the periphery in a quasi-federal country, the conflict in Catalonia might not have reached the proportions that it has, as that region's crisis would have been tackled in a multilateral body and not on a bilateral basis (the central and Catalan governments). Similarly, reforming the financing system for regions might be amicably resolved.

Reforming the Senate requires the approval of three-fifths of the Senate and of the Congress of Deputies, the lower chamber. Alternatively, a commission composed of members of both chambers could reach an agreement through an absolute majority in the Senate and a majority of two-thirds in the Congress.

The Council of State issued in 2006 a 400-page report favourable to changes in the Constitution proposed by the Socialist government, but 12 years later nothing has been done.

In today's polarised political climate with the addition since 2015 of two new parties in parliament, Podemos and Ciudadanos, reaching agreement on reforms would be very difficult. Furthermore, and paradoxical as it may seem, Basque and Catalan nationalist parties prefer to negotiate directly with the central government, as their seats in the national parliament, depending on the results of elections, can give them leverage over which party forms the government, in return for concessions that benefit their regions.

Number of births lowest since 1941, outstripped by deaths

The downward trend in births sharpened in the first half of the year, with the lowest number recorded since 1941, two years after the end of Spain's devastating civil war. The number of deaths in the first six months outstripped births by 46,590.

The trend began in 2015 when there were 21,280 more deaths than births (see Figure 8). The number of births peaked at 518,503 in 2008 at the height of Spain's decade-long economic boom and has not stopped declining since then.

Figure 8. Births and deaths, first half of 2011-2018

	2008	2012	2013	2014	2015	2016	2017	2018
Births	518,503	224,782	207,391	208,375	204,910	200,255	190,962	179,794
Deaths	384,198	217,634	200,491	204,464	226,190	210,300	221,700	226,384
Natural growth	134,305	7,148	6,900	3,911	-21,280	-10,045	-30,738	-46,590

Source: INE.

The average age at which a woman gave birth in the first half was 32.1 years and the fertility rate was 1.3 children.

Bankia bosses go on trial over public listing

Rodrigo Rato, the former Chairman of Bankia and before that the International Monetary Fund chief, was back in the dock, this time accused of fraud and falsifying financial statements in relation to the bank's 2011 flotation.

Rato, Bankia's Chairman between 2010 and 2012, when it was on the verge of collapse and was nationalised, is one of 35 defendants. The prosecution is seeking a five-year prison sentence. He is already serving a 4½ year sentence for misusing Bankia's corporate credit card.

The EU came to the rescue of Bankia with a €22 billion loan.

The Economy

Government plans military hardware spending of €7.3 billion

The government announced it planned to build five new navy frigates and 348 armoured personnel carriers, as well as incorporate the latest technological upgrades to its fleet of 69 Eurofighter Typhoon combat aircraft at a total cost of €7.3 billion over the next 10 years.

Defence Minister Margarita Robles said the spending would be in addition to the defence budget and would create 7,000 jobs in areas of high unemployment.

Tax burden inches up in 2017

Spain's total tax revenue accounted for 33.7% of GDP in 2017, up from 33.2% the year before but still way below the 37.2% in 2007 at the peak of the economic boom and slightly under the OECD average (see Figure 9).

Figure 9. Total tax revenue as % of 2000-17

	2017 ⁽¹⁾	2007	2000
France	46.2	43.5	43.4
Germany	37.5	36.2	36.2
Italy	42.4	43.5	40.6
Spain	33.7	37.2	33.2
UK	33.3	36.1	32.9
US	27.1	28.3	28.2
OECD average	34.2	35.8	33.8

(1) Provisional.

Source: OECD Revenue Statistics 2018.

The slight rise in the tax burden reflects the recovery of the economy since the bursting of a massive property bubble as of 2008. Property taxes were an important factor in increasing the tax burden, but then plummeted as the housing market took almost a decade to pick up.