

## Inside Spain Nr 185

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William Chislett

### Summary

India pips Spain in Elcano Global Presence Index.

Sánchez reshuffles his cabinet.

COVID-19 incidence rate surges sixfold in a month.

International tourism receipts set to fall by €20 billion in summer months.

Volkswagen moves to establish e-mobility hub.

### Foreign Policy

#### India pips Spain in Elcano Global Presence Index

Spain dropped from 12<sup>th</sup> to 13<sup>th</sup> position in the latest Elcano Global Presence Index, as it was pipped by India, although its score was a tad higher than in 2019 (see Figure 1).

**Figure 1. 2020 Elcano Global Presence Index, top 20 countries**

Country	2020 score	2010 score	Country	2020 score	2010 score
1. US	3,155.4	2,625.9	11. South Korea	323.1	224.4
2. China	1,224.0	596.8	12. India	291.6	247.6
3. Germany	839.1	840.5	<b>13. Spain</b>	<b>291.5</b>	<b>338.5</b>
4. UK	806.9	840.5	14. Switzerland	236.9	202.5
5. Japan	762.3	565.6	15. Australia	236.0	212.5
6. France	676.1	711.0	16. Belgium	230.8	245.8
7. Russian Fed.	506.8	402.0	17. Singapore	207.8	130.8
8. Canada	430.9	384.4	18. Ireland	170.5	123.5
9. Netherlands	410.0	389.5	19. Turkey	170.0	97.9
10. Italy	365.5	402.7	20. Saudi Arabia	147.0	98.5

Source: Elcano Royal Institute.

The 130 countries covered generate 99% of global GDP and account for 94% of the world's population.

Spain's score in 2020 was below that in 2010, like other European countries including Italy, France and to a lesser extent Germany, because of the impact of the 2008 global financial crisis, and in Spain's case the bursting of its massive property bubble, which plunged the country into a long recession.

The index, the result of adding together 16 indicators of external projection that are aggregated according to the criteria of experts in international relations, measures the ability of countries to project themselves beyond their borders and the extent to which they are participating in and shaping the process of globalisation.

It measures global presence based on three dimensions. First, it ranks a country's economic presence, including outward foreign direct investment and other elements such as energy, services and exports. Secondly, it assesses a country's military presence, which is determined by the number of troops deployed abroad and the equipment available for deployment. And third, it includes statistics on a country's soft presence, which is based on a wide number of factors including exports of cultural products, tourist arrivals and official development aid.

The index does not measure power and nor does it reflect a country's effort to achieve greater internationalisation or its degree of openness. Instead it shows the results of internationalisation and examines the external projection of countries more than the way in which they absorb the external action of other countries within their national territory. The index thus takes into account the exports of manufactured goods, for example, but disregards imports. By comparing a state's presence with its actual power (or influence), it is possible to gauge the extent to which it is punching above or below its weight. Spain is regarded as punching below its weight.

Spain's economic presence (61.9% of its total global presence) was slightly lower, mainly due to the lower exports of goods that were not compensated by the small recovery in outward direct investment (see Figure 2).

**Figure 2. Spain's global presence index absolute values and % share in the index of the economic, military and soft presence dimensions, 1990-2020**

Variable	1990	1995	2000	2010	2014	2016	2018	2019	2020
<b>Economic presence</b>	73.3	89.1	133.8	183.0	186.5	173.5	187.5	181.4	180.5
% of global presence	48.9	52.4	61.3	66.5	66.3	63.7	63.3	62.3	61.9
Energy	1.8	0.7	1.8	2.4	3.9	2.6	3.1	3.6	3.3
Primary goods	6.1	9.6	9.9	12.6	14.0	13.2	14.2	14.2	13.8
Manufactures	23.5	29.3	33.0	34.8	35.6	33.9	34.9	35.2	33.5
Services	34.2	36.6	44.4	52.7	47.9	46.1	50.5	51.4	51.2
Investments	7.8	12.9	43.9	118.0	85.1	77.7	84.8	76.9	78.8
<b>Military presence</b>	46.7	46.6	46.9	53.9	33.8	33.6	35.4	36.3	36.8
% of global presence	31.2	27.4	21.5	15.9	12.0	12.3	12.0	12.5	12.6
Troops	0.4	7.8	12.9	12.8	3.8	4.8	7.1	8.0	8.6
Military equipment	46.3	38.8	34.0	42.3	30.0	28.8	28.3	28.3	28.2
<b>Soft presence</b>	29.9	34.4	37.6	64.2	60.9	65.3	73.2	73.3	74.2
% of global presence	19.9	20.2	17.2	19.0	21.6	24.0	24.7	25.2	25.5
Migrations	1.3	1.5	2.3	7.7	7.0	6.9	6.8	6.8	6.7
Tourism	17.4	14.1	13.6	15.0	17.3	17.6	19.0	19.0	18.3
Sports	1.0	2.9	1.3	3.0	3.6	3.4	3.1	3.1	3.1
Culture	0.4	1.1	2.3	4.4	4.4	7.5	9.3	9.7	9.6
Information	1.0	2.3	2.6	3.8	4.3	6.7	6.6	6.2	6.3
Technology	1.1	1.4	1.3	2.5	3.7	4.0	5.0	5.1	6.1
Science	2.2	3.4	4.9	8.7	10.7	10.9	11.5	11.6	12.4
Education	1.0	2.0	3.5	3.7	4.1	3.7	4.6	4.9	4.8
Development cooperation	4.6	5.6	5.8	15.4	5.7	4.6	7.2	6.8	6.9
<b>Global presence index value</b>	149.9	170.1	218.3	338.5	281.2	272.4	296.2	290.9	291.5
Position in the index	12	11	11	11	12	13	12	12	12

Source: Elcano Royal Institute.

### NGO presses government on 'shameful' deaths of migrants on sea crossings

More than 2,000 people died or disappeared in the first six months of this year while trying to reach Spain by sea, almost as many as in the whole of 2020, according to a report by Caminando Fronteras.

The 2,081 migrants who died in the attempt included 341 women and 96 children compared with 2,170 last year.

Caminando Fronteras said the figures were the worst it had recorded in 14 years of tracking people leaving Africa for Spain.

The most perilous route was the Atlantic one to the Canary Islands, with 1,922 deaths. The dead came from 18 countries.

Helena Maleno, the head of the NGO, called the situation 'catastrophic' and 'shameful'.

### Foreign Minister victim of Morocco crisis in government reshuffle

Prime Minister Pedro Sánchez appointed José Manuel Albares as the new Foreign Minister in place of Arancha González Laya, who fell foul of the Moroccan government after agreeing for Western Saharan independence leader Brahim Ghali to be treated in a Spanish hospital.

That action in May, viewed by Rabat as a shift in Spain's policy towards the Western Sahara, a Spanish colony until 1975 and annexed by Morocco in 1976, triggered the illegal crossing into the Spanish enclave of Ceuta on the North African coast of more than 12,000 people, including around 1,500 unaccompanied minors, most of whom have been returned.

Ghali heads the Algerian-backed Polisario Front and is President of the self-declared Sahrawi Arab Democratic Republic. The Western Sahara has been home to one of the UN's longest-running peacekeeping forces since 1991.

Albares served as Sánchez's foreign policy advisor from June 2018 until February 2020 when he was appointed Spain's Ambassador in France.

His first task will be to put relations with Morocco, a strategically important country for Spain, back on an even keel. Rabat recalled its Ambassador to Spain.

## Domestic Scene

### COVID-19 incidence rate surges sixfold in a month

The respite from the sharp fall in the 14-day incidence rate of COVID cases was short-lived: in a fifth wave, the rate per 100,000 people soared sixfold to 600, (it peaked at 899 on 27 January, 2021) and skyrocketed among 20 to 29-year-olds to 1,794 (see Figure 3).

**Figure 3. Coronavirus (COVID-19) 14-day cumulative number of cases per 100,000 people by region**

	10 May	21 June	19 July
Andalucía	180	173	425
Aragón	291	83	767
Asturias	95	72	653
Balearic Islands	57	40	652
Basque Country	407	107	494
Canary Islands	84	94	342
Cantabria	205	89	603
Castilla y León	166	80	908
Castilla-La Mancha	193	67	249
Catalonia	253	92	1,298
Extremadura	91	60	413
Galicia	93	40	448
Madrid	304	82	493
Murcia	68	49	285
Navarre	271	102	908
La Rioja	233	145	463
Valencia	36	42	516
<b>Spain (1)</b>	<b>189</b>	<b>92</b>	<b>599</b>

(1) Including the North African enclaves of Ceuta and Melilla. As at 19/VII/2021.

Source: Health Ministry.

The figures are alarming, but the situation is not as critical as it might seem. Most of the new COVID cases are among young, unvaccinated people who are less likely to fall seriously ill. Daily death rates remain low (the total number of dead is 81,033). Occupancy of beds in intensive care units (ICUs) for COVID cases is around 11% (it peaked at 45% in the third wave), but hospitals are coming under pressure. In Catalonia, 42% of ICU patients have COVID. The key indicator now is the number of hospitalised cases (currently around 7,500), not the number of cases (4.1 million).

Seventy per cent of the adult population (50.8% of the total population) has received at least one vaccination and 57% the full dose (see Figure 4). Only 26.4 % of 20-to-29 year olds have received one vaccination and 13% the full amount.

**Figure 4. COVID-19 vaccination by age groups (%) (1)**

	+80	70-79	60-69	50-59	40-49	30-39	20-29	Average
At least one	100	98.8	95.8	90.7	80.4	53.2	26.4	70.0
Full	100	97.6	81.2	85.5	62.7	21.0	13.0	57.1

(1) At 19 July 2021.

Source: Health Ministry.

Restrictions have been re-imposed in Catalonia, Cantabria and Valencia affecting some 8 million people, including night-time curfews. Tenerife sought to reimpose a curfew but the Supreme Court of the Canary Islands said it could not condone a limit on mobility between 12:30am and 6:00am in a bid to avoid illegal parties. The legal obligation to wear a face mask outdoors ended on 26 June.

Spain was beginning to do well until the last week of June when the impact of end-of-course school trips to Mallorca in the middle of that month was felt, and more importantly the more deadly Delta variant. More than 1,000 students from six regions got COVID and over 2,000 had to quarantine.

The Health Ministry called for a ban on these trips on the same day (30 June) that the British government added the Balearic Islands to its 'green' watchlist of safe destinations (changed to amber as of 19 July), because of the surge in cases.

Bloomberg ranked Spain sixth out of 53 countries at 28 June (before the surge) in its COVID resilience ranking, based on aspects such as vaccination, mobility and health coverage (see Figure 5).

**Figure 5. COVID-19 resilience ranking**

Ranking out of 53 countries	Score
1. US	76.0
2. New Zealand	73.7
5. France	72.8
<b>6. Spain</b>	<b>72.0</b>
9. UK	68.7
26. Italy	63.0
28. Germany	62.4
53. Argentina	37.0

Source: Bloomberg. As at 28/VI/2021.

As if the government had not got enough on its COVID plate, the Constitutional Court in a split decision (six against five judges) ruled that the strict home confinement in March 2020 included in a national state of alarm to curb the first wave of infection was unconstitutional. It upheld most of the other terms of the state of alarm but the provisions ordering people off the streets except for short shopping trips and other exceptions violated basic rights and should have been suspended under a state of emergency.

The ruling 16 months after the lockdown, in response to an appeal filed by the hard-right VOX, despite the party voting in parliament in favour of the confinement, opens the door to the cancellation of fines for breaching lockdown restrictions.

The government said it respected the decision but did not share it. 'When so much time has gone by, when the state of alarm is over, these doctrinal debates belong more to the academic sphere than any other', said Margarita Robles, the Defence Minister.

### Sánchez reshuffles his cabinet...

Prime Minister Pedro Sánchez replaced seven of his Ministers in a wide reshuffle which made the government more connected with his Socialist party. Among the prominent Ministers to leave were Arancha González Laya, the Foreign Minister (see the section above), and Carmen Calvo, the Deputy Prime Minister.

Those who stayed include Nadia Calviño, the Economy Minister and now Sánchez's deputy, and José Luis Escrivá, in charge of Social Security and Migration. The five Ministers of the hard-left Unidas Podemos, the junior partner in the coalition minority government, remained in their posts.

Four of the new Ministers are female Socialists from local politics. Their appointments brought the number of women in the 22-strong cabinet to 14, 63.6% of the total, making it the most feminist in Europe.

The biggest surprise was the departure of Iván Redondo, Sánchez's chief of staff and a political consultant with no political affiliation, who is credited with catapulting Sánchez to power in May 2018 after the Socialists won a vote of no confidence against the Popular Party (PP) government of Mariano Rajoy. Censure motions in Spain have to include a candidate for Prime Minister.

Redondo was not popular among the Socialist 'barons', having previously worked for the PP. He was replaced by Óscar López, a former Socialist Senator and MP.

In his three years as Prime Minister, following the success in a no confidence vote and two general elections, Sánchez has made 38 ministerial appointments. Some have lasted days, months or just over a year. Of the initial seven, seven are left. In the Culture and Health Ministries, there have been four Ministers.

Sánchez has publicly ruled out an early election –not due until November 2023– unless he loses the parliamentary support that maintains the government in power, most notably 13 MPs of the pro-independence Catalan Republican Left (ERC). He challenged the Popular Party to present a censure motion.

### ... Warns the pardoned Catalan secessionists not to reoffend

Prime Minister Pedro Sánchez fired a warning shot at the nine jailed Catalan secessionists let out of prison last month on pardons, telling them the full force of the law would be applied if they launched another unconstitutional referendum on independence like the one in 2017.

He also ruled out an agreed referendum on breaking away from Spain, and left the door open for a consultation on increased powers of autonomy for Catalonia. The central and Catalan governments will formally meet on 2 August for the first time since 2018.

‘He says there will be no referendum [on independence]’, said Gabriel Rufián, the spokesman in parliament of Republican Left of Catalonia (ERC), which gives the Socialist-led minority coalition government support in Congress, unlike the other main pro-independence party, Junts per Catalunya (JxCat). ‘He also said there would be no pardons, so give us time’.

The more pragmatic ERC compared to the maximalist JxCat leads the Catalan government since May, and not JxCat as before. This, combined with the pardons, has taken some of the heat out of the independence debate, at least for the time being. JxCat calls the upcoming negotiations between the Catalan and central government a ‘farce’.

Oriol Junqueras, ERC’s leader and the former Deputy Premier in the previous JxCat-led government, and one of the nine released from prison, visited the former Premier, Carles Puigdemont, a fugitive from justice, in Belgium where he has been in self-imposed exile since November 2017. The meeting was apparently amicable, although Junqueras spent three and a half years in prison and Puigdemont has been living in comfort.

The Court of Auditors is claiming €1.9 million each from Puigdemont and Junqueras for using public funds to promote the independence cause abroad through the Catalan government’s Diplocat offices. They are among 39 former Catalan officials facing the seizure of assets including properties if they cannot meet the claims.

The Catalan government has created a €10 million fund to cover the claims. Legal experts questioned the fund’s legality as the decree law does not meet various requirements.



## The Economy

### International tourism receipts set to fall by €20 billion in summer months

The surge in the COVID incidence rate, fuelled by the Delta variant, and, as a result, the UK's decision to move the Balearic Islands from the green watchlist to amber, coupled with recommendations by the French and German governments against travelling to Spain, have dealt another severe blow to the vital tourism sector. The Balearics were the only part of Spain not on the amber list.

Arrivals in the UK from amber list countries who are not fully vaccinated need a day 2 and day 8 test, and to quarantine for 10 days. The Test to Release scheme remains an option for non-fully vaccinated travellers returning from amber countries to shorten their quarantine period.

Exceltur, which represents the tourism sector, estimates revenue for the summer months will be €20 billion lower than in 2019, the last 'normal' year, when the sector generated more than 12% of GDP and Britons made up around 20% of the 83.7 million total international tourists. Their number in the first five months of 2021 was 93% lower year-on-year at 130,826 (see Figure 6). The total number of tourists was down 70% at 3.2 million. The sector generated less than 5% of GDP in 2020 and the prospect for this year is no better, unless there is a sudden pick-up.

**Figure 6. International tourists by main country of residence, January-May 2021 (1)**

	January-May	Year-on-year fall (%)
France	749,065	44.9
Germany	669,647	48.5
Italy	176,116	68.1
Portugal	156,298	58.9
Netherlands	143,514	68.4
Belgium	136,554	56.9
UK	130,826	93.5
Total	3,203,033	69.7

(1) Excludes this who only stay one night or are in transit. Source: INE.

In the 16 months of the pandemic, Spain has lost €150 billion in tourism receipts, roughly what the sector earned in 2019, according to Exceltur.

### Government approves pension reform, doubts on its effectiveness

The government's bill to make the ailing pay-as-you-go state pension system more sustainable restores inflation-linked annual rises in payments, introduces measures to move the effective retirement age closer to the statutory age (currently 65.5 years) and does away with a factor based on variables pivotal to the social security system such as revenue, expenditure and the number of pensions.

The reforms get rid of those made in 2013 by the Popular Party government and will be followed by others. Pension experts said these first reforms will not have much of an overall impact and could push up expenditure unless corrected by other measures, including a yet to be defined intergenerational equity mechanism. The social security deficit was 2.6% of GDP in 2020.

The pension system is under strain from the upcoming retirement (as of 2025) of the baby-boom generation (those born between the late 1950s and the mid-1960s), which in Spain arrived 12 years later than many other EU countries. Between 1958 and 1977, close to 14 million babies were born, 2.5 million more than in the previous 20 years and 4.5 million more than in the following 20 years.

Spain has also undergone profound demographic changes over the last 30 years: a sharp fall in the fertility rate, higher life expectancy and in recent years the arrival of fewer immigrants. The United Nations forecasts there will be 78 people in Spain over the age of 65 per 100 people aged 20-64 (the working population) in 2050 against 33 currently, and 53 and 31, respectively, in OECD countries on average.

Today's 65-year-olds can expect to live three years longer than those who were 65 in 1991, and five years less than those who will be 65 in 2050.

According to BBVA's Research Department, reinstating inflation linked pensions –the 2013 reforms limited annual rises to 0.25% and capped the maximum increase at 0.5 points above inflation if the system could afford it– will push up spending by 2.3 percentage points of GDP by 2040.

The European Commission demanded pension and other reforms before releasing the first tranche (€9 billion) this month of the €69.5 billion of grants from its NextGenerationEU (NGEU) COVID-19 recovery fund. Brussels can be expected to keep up the pressure on Spain to put its pension house in order.

### Rise in inward and outward foreign direct investment

Foreign direct investment (FDI) flows to Spain rose 4.7% to €8.9 billion in 2020 and outflows increased 9.2% to €21.4 billion (see Figure 7), according to UNCTAD's 2021 World Investment Report.

**Figure 7. FDI inflows, 2016-20 (US\$ billion)**

	2016	2017	2018	2019	2020
France	23.1	24.8	38.2	33.9	17.9
Germany	15.6	48.6	62.0	54.0	35.6
Italy	28.5	24.0	37.7	18.1	-368
<b>Spain</b>	<b>31.6</b>	<b>41.9</b>	<b>53.5</b>	<b>8.5</b>	<b>8.9</b>
UK	258.7	96.3	65.3	45.4	19.7

Source: World Investment Report 2021, UNCTAD.

**Figure 8. FDI outflows, 2016-20 (US\$ billion)**

	2016	2017	2018	2019	2020
France	64.8	35.9	105.6	38.7	44.2
Germany	63.7	86.5	86.2	139.3	34.9
Italy	16.2	24.5	32.8	19.8	10.3
<b>Spain</b>	<b>43.9</b>	<b>56.0</b>	<b>37.7</b>	<b>19.7</b>	<b>21.4</b>
UK	-37.60 (1)	142.4	41.4	-6.0	-33.4

(1) Disinvestments greater than investments.

Source: World Investment Report 2021, UNCTAD.

The outflows included a US\$6 billion deal by Telefónica to build a fibre-optic network in Germany.

The stock of inward investment in 2020 stood at US\$853.4 billion, up from US\$763.2 billion in 2019 (see Figure 9). The rise partly reflected the euro/dollar exchange rate. Spain's figures are in euros and UNCTAD's in dollars for all countries.

**Figure 9. FDI inward stock, 2000, 2010 and 2020 (US\$ billion)**

	2000	2010	2020
France	184.2	630.7	968.1
Germany	470.9	955.8	1,059.3
Italy	122.5	328.0	485.8
<b>Spain</b>	<b>156.3</b>	<b>628.3</b>	<b>853.4</b>
UK	439.4	1,068.1	2,206.2

Source: World Investment Report 2021, UNCTAD.

The stock of outward direct investment stood at US\$624.8 billion, slightly down from US\$626.3 billion (see Figure 10).

**Figure 10. FDI outward stock, 2000, 2010 and 2019 (US\$ billion)**

	2000	2010	2020
France	365.8	1,172.9	1,721.8
Germany	483.9	1,364.5	1,977.2
Italy	169.9	491.2	596.1
<b>Spain</b>	<b>129.2</b>	<b>653.2</b>	<b>624.8</b>
UK	940.2	1,686.2	2,055.4

Source: World Investment Report 2021, UNCTAD.

Spain's stock in Latin America is the second largest after the US (see Figure 11) and the 10<sup>th</sup> in landlocked developing countries (see Figure 12).

**Figure 11. Top 10 investor countries in Latin America by FDI stock, 2019 (US\$ billion)**

	US\$ bn		US\$ bn
US	260	Chile	62
<b>Spain</b>	<b>150</b>	<b>France</b>	<b>47</b>
Netherlands	143	Germany	38
Luxembourg	106	South Korea	38
Canada	73	Italy	38

Source: World Investment Report 2021, UNCTAD.

**Figure 12. Top 10 investor countries in landlocked developing countries by FDI stock, 2019 (US\$ billion)**

	US\$ bn		US\$ bn
China	38	Russian Federation	6
Netherlands	26	South Africa	4
France	14	Thailand	4
Canada	11	Italy	4
Mauritius	9	Spain	3

Source: World Investment Report 2021, UNCTAD.

### Number of millionaires rises

There were more millionaires in Spain in 2020 for the ninth year running, according to the World Wealth Report of Capgemini which tracks high net-worth individuals.

Those with investable assets of at least US\$1 million (€865,726), excluding their primary residence, collectibles, consumables and consumer durables, rose slightly from 235,400 to 236,000, the 15<sup>th</sup> highest count in the world (see Figures 13 and 14).

**Figure 13. Number of millionaires, 2010-20 (thousands)**

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
140	137.3	145	161	178	192.5	202.1	224.2	224.3	235.4	236

Source: Capgemini, 2021 World Wealth Report.

**Figure 14. Top countries with millionaires, 2020**

Thousands		Thousands	
US	6,575	Italy	301
Japan	3,537	Netherlands	299
Germany	1,535	Australia	295
China	1,461	India	278
France	774	South Korea	261
UK	573	Iran	250
Switzerland	459	<b>Spain</b>	<b>236</b>
Canada	403	Russian Federation	218

Source: Capgemini, 2021 World Wealth Report.

The number dropped in 2008, 2010 and 2011 following the bursting of a massive property bubble and recession, and since then has risen every year.

## Corporate Scene

### Volkswagen moves to establish e-mobility hub

Volkswagen, which took over Spain's car maker SEAT in 1986, plans to make Spain a key part of its global electrification plan by building a battery plant. This would make Spain the third location after Sweden and Germany for one of six gigafactories in Europe.

VW will apply for funds for the plant from the government's Strategic Project for Economic Recovery and Transformation (PERTE), part of the NextGenerationEU (NGEU) fund.

The SEAT plant in Martorell would become an all-electric vehicle factory including making the Small BEV Family.

‘We are willing to establish the entire value chain of e-mobility in the country – electric vehicle production, electric car components, a Group-new cell factory’, said Herbert Diess, VW’s CEO. ‘Depending on the general framework and public support, from 2025 onwards the Small BEV Family could be made in Spain’.