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Foreign Policy

Spain scores diplomatic victory over Cuba

Socialists on collision course with Basque nationalists over bid for increased regional independence

Spain's efforts to achieve a renewed political dialogue between the European Union and Cuba have begun to bear fruit (see *Inside Spain*, Newsletter 8, December 1, 2004). The European Union's Latin America Committee (Colat) agreed to recommend to foreign ministers a more flexible policy.

The EU unanimously agreed in 2003 to reduce high-level governmental visits and participation in cultural events in Cuba after the summary execution by firing squad of three people, who hijacked a ferry in an attempt to escape the country, and the roundup of 75 dissidents. Countries also decided to invite dissidents to national holiday celebrations at their embassies in Havana as a sign of support for the regime's opponents. The regime retaliated by freezing out embassies from all official contacts, but it did not sever diplomatic relations.

In November, Spain became the first EU country with whom Cuba re-established formal contacts (followed by all others in early January). This was seen as a 'reward' for Spain's efforts to end Cuba's isolation. The Spanish government could also claim some of the credit for the release of 14 of the 75 jailed dissidents including Raúl Rivero.

Cuba's Foreign Minister, Felipe Pérez Roque, said the ending of the diplomatic freeze was possible as a result of an offer by the EU 'to renounce invitations to national day celebrations of mercenaries paid and directed by the United States'.

Under the EU's proposed plan, however, neither dissidents nor government officials will be invited to drink *mojitos* –a blend of rum, lime and mint– at embassy receptions.

The EU is unlikely to agree to a complete normalisation unless Cuba makes further pro-democracy moves.

Spain accepts that Gibraltar can veto agreements reached with the UK

Spain, the UK and Gibraltar held their first three-way talks in the new open agenda forum which, for the first time, gives the disputed British colony a voice on its future (see *Inside Spain*, Newsletter 7, November 4, 2004). Spain formally accepted that Gibraltar had a veto over anything decided.

This recognised something that has long been effective –an attempt to negotiate a co-sovereignty agreement in 2002 stalled after Gibraltar’s government called a referendum in which 99% of voters showed their opposition– but it is, nonetheless, symbolically important as previous Spanish governments refused to give Gibraltar any right to stop Britain and Spain reaching agreement to settle a 300-year-old sovereignty dispute.

The UK Foreign Office said all three parties would now take part on an equal footing: ‘All three participants must agree any decisions or agreements reached within the forum’.

Bernardino Leon, the Spanish secretary of state for foreign affairs, stressed that this new approach did not mean any change in Spain’s quest for sovereignty but rather a new strategy with the same goal. ‘Closing one’s eyes to reality is not the best way to find the solution to a problem’, he said.

The Popular Party, which ruled Spain between 1996 and 2004, called the Socialists charm offensive ‘a very serious mistake’.

Spain and the US sign extradition agreement

Juan Fernando López Aguilar, Spain’s Justice Minister, and John Ashcroft, the US Attorney General, signed an extradition and legal assistance treaty which strengthens the cooperation between the two countries over international terrorism. Spain inserted a clause in the agreement preventing the US authorities from applying the death sentence to anyone who is extradited.

Spain reaffirms it will not send troops to Iraq

Spain, together with France, Germany, Belgium and Greece, has rejected the US request to participate in boosting NATO’s training deployment in Iraq from 60 to 300. The training mission will instruct senior Iraqi military staff.

The countries have refused to allow their nationals to take part, even if they are permanently assigned to NATO.

At a meeting of NATO foreign ministers in Brussels Colin Powell, the outgoing US Secretary of State, criticised these countries which opposed the Iraq war for not helping the alliance.

Spain pledges US\$68 million to tsunami-hit Asian countries and sends a large military contingent

Spain has promised US\$68 million to help the countries devastated by the tsunami and is also sending three aeroplanes, a ship equipped with a hospital and 650 soldiers. Its pledge is the ninth largest amongst countries and institutions (see Figure 1).

Figure 1. What the World has Pledged (US\$ mn)

Country	Country	Country	Country	Country	Country
Japan	500	Netherlands	34	Luxembourg	6
USA	350	EU	31	Taiwan	5
World Bank	250	Germany	27	New Zealand	3
Norway	181	Qatar	25	Singapore	3
Britain	96	Switzerland	24	Algeria	2
Italy	95	UAE	20	Bahrain	2
Sweden	80	Belgium	16	Libya	2
Denmark	76	Ireland	13	Venezuela	2
Spain	68	Portugal	11	Poland	1
Canada	66	Austria	10	Hungary	1
France	60	Kuwait	10	Turkey	1
S. Korea	50	Saudi Arabia	10		
Australia	46	Finland	6		

Source: Reuters at January 5, 2004.

Domestic Scene

Socialists on collision course with Basque nationalists over bid for increased regional independence

The battle lines have been drawn up between Basque nationalists and the Socialist government, backed by the centre-right opposition Popular Party (PP), over a plan for increased regional independence passed by the Basque parliament. José Luis Rodríguez Zapatero, the prime minister, says the plan, which would be submitted to a referendum in the Basque Country, is unconstitutional while Juan José Ibarretxe, the Basque premier, says the Congress in Madrid cannot overrule the Basque parliament. The confrontation is the most serious since Spain began to devolve power to the regions under the 1978 constitution.

Meanwhile, the Catalan Republican Left (*Esquerra Republicana*), a separatist party whose support for the Socialists helps to give it a working majority in parliament, has the potential to sink the government as it sympathises with the Basque move.

The plan to give the Basque Country the political status of ‘free association’ with Spain was first publicly mentioned by Ibarretxe, who heads the Basque Nationalist Party, in 2002 and was vehemently denounced by the previous PP government. At the end of 2004 it was approved by the Basque parliament by the narrowest of margins after a last minute U-turn by three MPs of the outlawed Herri Batasuna (HB) party, the political arm of the Basque terrorist organisation Eta and now called Socialista Abertzaleak, which had threatened to abstain because it said the plan did not go far enough. The three MPs still retain the seats they won before the ban.

Ibarretxe’s acceptance of HB’s support particularly angered the Socialists as they said this broke a promise not to push it through the parliament with the support of Eta’s allies.

‘Within the democratic community of our country there is a place for everyone, and everything can be discussed within the framework of the constitution’, said Zapatero. ‘Outside it, there is nothing to discuss.’ The Socialists, however, are not being as belligerent as the PP and are willing to discuss the plan in the Madrid parliament, even though it would be massively rejected if put to the vote. Zapatero agreed to meet Ibarretxe before it went to parliament (José María Aznar, the former prime minister, refused to speak to him during his last two years in power).

The Basque Country already enjoys one of the highest degrees of autonomy of any region in Europe. For example, it collects its own taxes, teaches its own language (suppressed during the 1939-75 Franco regime), which is co-official with Spanish in the region, runs its own schools and has its own police force. Under 'free association' the Supreme Court of Justice, the highest court in the Basque country, would be answerable only to the Basque parliament, the region would be directly represented in Europe with power of veto on issues that concern it and it would be a single electoral district in the European elections. Only defence, customs and parts of foreign affairs would be run by the central government in Madrid.

The plan will form the platform for the PNV in regional elections due in the spring, which it is expected to win. The PNV has been in power since 1980. Madrid has the constitutional right to veto a regional referendum, but it would have to face down a party that had democratically been returned to power. And any signs of weakness in the face of the issue will be seized upon by the PP and used against the Socialists.

Ibarrexe believes the plan provides a political solution to Eta's violence. The Socialists and the PP, however, see it as giving in to Eta which has killed more than 800 people since it first took up arms in the 1960s, and the first crack in a unified Spain.

For the second year running, Eta, weakened by many arrests and the dismantling of its infrastructure, killed no one in 2004. According to a recent study, commissioned by a high court judge, violence and threats by Eta have cost Spain almost €8 billion over the past decade. The study calculated the cost of extra security, insurance, compensation for victims and jailing of convicted Eta members.

Elcano study calls for a major revamping of Spain's immigration policies

Spain has very quickly become a new destination for immigrants and its policies to control the flows and working conditions are not functioning, according to a study prepared by the Elcano Royal Institute and the Ortega y Gasset Research University Institute. The report calls for a much more realistic approach to one of the most important and potentially conflictive issues facing the country.

Spain's foreign population was 3.1 million at the end of July, 7% of the total of 43 million and proportionately more than double that of 2001, according to the National Statistics Office (INE). The sharp and ongoing rise in the foreign population (from only 165,000 in 1976) is due to the huge inflow of immigrants. Spain received one in every three new immigrants arriving in the EU during 2003. New immigrants are and have almost always been illegal immigrants as it is virtually impossible to emigrate legally to Spain if you are not an EU citizen. The INE figure and that of the Interior Minister on the number of legal immigrants (1.7 million with residency permits) enable one to roughly gauge the number of illegal immigrants. The difference between the two figures of 1.4 million theoretically corresponded to the number of illegal immigrants.

The government approved at the end of 2004 a new law that allows illegal immigrants, who have been registered with their local town hall before August 7 for more than six months and who have a pre-contract for a job for at least six months (three months in the case of agricultural workers), to request residency permits as of February 7.

The law is tantamount to an amnesty and is an attempt to end the widespread irregularities in the labour market in the hiring of illegal immigrants. Under the previous law, illegal workers were in a Catch 22 situation. They were obliged to obtain contracts from companies as a condition for getting work and residency permits. However, under sometimes contradictory regulations, many could not get a work permit unless they had a job, and could not get a job without a work permit.

Companies increasingly turned a blind eye to this and hired foreigners to do jobs shunned by Spaniards. The government will also use the reform to root out Spain's still large underground economy (estimated at more than 20% of GDP) and so boost tax revenues.

The study points out several anomalies in an increasingly chaotic and uncontrolled situation. Perhaps the most illuminating one is the fact that in 2003 the government's official quota for immigrants entering with work permits granted in the country of origin was 10,000 (excluding temporary permits) but only 3,490 people filled it. Yet that same year around 105,000 work permits were granted in Spain (excluding temporary ones) and only 3% of them corresponded to the quota. And the flow of 'illegals' continued unabated. There is a chronic imbalance between goals and reality, and this is sending out a message to potential immigrants that while the only legal way to work in Spain is via the government's quota, generally speaking there is no problem finding and keeping an illegal job if you get into the country by other means.

At the same time, the number of illegal immigrants expelled from Spain was 'light years' away from their total (between 800,000 and one million according to the study). Almost all of those expelled were people caught entering the country, mostly crossing the Straits of Gibraltar from North Africa in rickety boats (15,675 were detained in 2004, before or when they reached the beach, and 141 died), and not those already in Spain illegally. The fact that there are so many people working illegally in Spain is eloquent testimony of the 'very inadequate application' of the legislation outlawing such practices.

The study, coordinated by Rickard Sandell, Elcano's senior analyst for demographics, population and international immigration, and Joaquín Arango, director of the Ortega y Gasset's Immigration and Citizenship Study Centre, makes a series of recommendations which it believes should be taken into account in future policies. They include:

- **Better use of the information on illegal immigrants crossing Spain's frontiers.** There is much more information on those who enter the country than on those who leave and without the latter it is more difficult to know who is entering by 'normal' means but staying and working illegally. A large part of the illegal workers enter Spain legally.
- **Recognise immigration as a permanent phenomenon.** Although most immigrants have no intention of returning to their own country, Spain treats immigration as a temporary phenomenon. This makes no sense when the number is already 3 million. Among other consequences, this means easing the increasing pressure on schools and hospitals in those areas with the most immigrants.
- **Better co-operation between departments and between regional and central administrations.**

- **Reduce the number of illegal immigrants.** This would begin by recognising that the large number of illegal immigrants is the result not so much of the current policies but of the substantial demand that exists for ‘irregular’ labour and hence the existence of a flourishing underground economy. The root of the problem, not the result, needs to be tackled.
- **Spain should play a more prominent role in designing the EU’s immigration policies.** Immigration is increasingly subject to EU legislation and policies and as a major recipient country Spain should assume a greater role.

Spaniards have so far been remarkably tolerant of immigrants, even though unemployment remains high by EU standards. So far immigrants have not really taken jobs away from Spaniards. However, a recently released study by the government’s Centre of Sociological Research (CIS) on xenophobia sounds a warning bell: the proportion of people surveyed who reject immigrants quadrupled to 32% during the eight years of the previous government.

Zaragoza beats Trieste to host Expo-2008

Zaragoza is to host Expo-2008. This will be the second time in less than 20 years that Spain has held a World Exhibition as in 1992 it was in Seville. The theme of Zaragoza’s Expo will be water and the sustainable development of cities. The preparations for it will substantially transform and modernise Zaragoza (population 630,000), the capital of Aragón, in north-eastern Spain.

The €1.5 billion budget includes installations for the fair, expansion of the local airport, road improvements and the construction of a light railway. The works could lead to the creation of 21,000 jobs, including 18,000 in the service sector and 3,000 in construction. The organisers hope to attract more than 7.5 million visitors.

Water is a particularly sensitive issue in Aragon, home of the Ebro river. The previous government of the Popular Party planned a very ambitious project under which water from the Ebro would be transferred to the dry areas of Spain in the south. The Socialist government cancelled the project soon after taking office in 2004, to the delight of the government of Aragón.

Spain ranked lower in the PISA education league

Spain’s serious secondary education problems were highlighted by the latest PISA report conducted every three years. The country was ranked 26th out of a total of 40 countries in reading, mathematics and science and slightly higher when compared with just OECD countries (see Figure 2).

Figure 2. PISA Report Ranking, Selected OECD Countries

Reading	Mathematics	Science
1. Finland	1. Finland	1. Japan
2. S. Korea	2. S. Korea	2. Finland
6. Ireland	6. Belgium	6. Czech Republic
12. Japan	12. Denmark	12. Sweden
14. France	14. Sweden	14. Hungary
15. US	16. Ireland	15. Germany
21. Czech Republic	22. Hungary	21. US
23. Spain	24. Spain	22. Spain
26. Italy	25. US	25. Luxembourg
29. Turkey	29. Turkey	29. Turkey
30. Mexico	30. Mexico	30. Mexico

Source: OECD.

The results, which in reading and science were worse than the last survey carried out in 2000, have contributed to the growing public debate and concern in the government over Spain's declining educational standards. What is particularly worrying for Spain is that countries with a lower per student level of expenditure, such as Hungary and Poland (EU members as of last May) are performing better. These countries are increasingly attracting foreign direct investment, in competition with Spain, and luring companies to relocate.

Spanish Investment Abroad

Spain's Ferrovial lifts its stake in London underground consortium

Ferrovial, one of Spain's big construction companies, doubled its stake in Tube Lines to 66% after acquiring 33% of the company from Jarvis, the UK support services group, for €206 million. Tube Lines maintains the Jubilee, Northern and Piccadilly lines and runs one-third of the London underground. The sale saved the heavily indebted Jarvis from financial collapse.

The purchase was made by Amey, the wholly-owned subsidiary of Ferrovial which it bought in 2003. Ferrovial has been keen to snap up UK infrastructure assets.

Riu takes the lead in Tui

Spain's Riu hotel chain became the main shareholder in Germany's Tui, the world's biggest tourism group, after Tui sold a 10% stake to Riu and 7% to Grupo de Empresas Matutes, which is a partner in the hotel business of Tui's UK subsidiary Thomson, and the savings bank, Caja de Ahorros del Mediterráneo.

Repsol YPF makes big gas discovery in Trinidad and acquires Shell's butane gas business in Portugal

Repsol YPF and BP have made a significant gas discovery of an estimated 360 million barrels of oil equivalent (mboe) off the coast of Trinidad and Tobago. The reserves were discovered by the company 30% owned by Repsol and 70% by BP.

Repsol also reached an agreement with Royal Dutch/Shell to acquire its butane gas activities in Portugal and the subsidiaries in Madeira and the Azores. The deal will boost Repsol's market share of this business from 5% to around 20%. It follows Repsol's purchase of Shell's 303 petrol stations in Portugal last summer when it almost quadrupled its share of this market to 20%.

The Economy

Foreign Direct Investment in Spain plummets in 2004

Foreign direct investment (FDI) in Spain fell from US\$26 billion in 2003 to just US\$6 billion in 2004, according to preliminary figures from UNCTAD (see Figure 3). While global FDI grew 6%, FDI in Spain dropped 77%.

Figure 3. FDI Inflows, by host region and major host economy, 2001-2004 (US\$ bn)

Host region/economy	2001	2002 ^a	2003 ^a	2004 ^b
World	818	681	580	612
Developed countries	571	490	380	321
European Union	357	374	308	165
Belgium	..	15	29	7
France	50	49	47	35
Germany	21	36	13	-49
Ireland	10	24	27	26
Italy	15	15	16	15
Luxembourg	..	117	92	52
Portugal	6	2	1	6
Spain	28	36	26	6
United Kingdom	53	28	21	55
Australia	4	14	8	5
Canada	27	21	7	12
Japan	6	9	6	7
United States	159	63	30	121
Developing economies	220	159	173	255
Africa	20	12	15	20
Latin America and the Caribbean	88	53	51	69
Brazil	22	17	10	16
Chile	4	2	3	6
Mexico	27	15	11	18
Asia and the Pacific	112	94	107	166
China	47	53	54	62
Hong Kong, China	24	10	14	33
India	3	3	4	6
Korea, Republic of	4	3	4	9
Singapore	15	6	11	21
Central and Eastern Europe^c	26	31	27	36
Czech Republic	6	8	3	5
Poland	6	4	4	5
Russian Federation	2	3	7	10

Source: UNCTAD (www.unctad.org/fdistatistics) and UNCTAD's own estimates.

a Revised data.

b Preliminary estimates. See note below.

c The eight CEE countries that acceded to the EU in 2004 are included under this heading.

Note: World FDI inflows are projected on the basis of 101 economies for which data are available for part of 2004, as of 29 December 2004. Data for most economies are estimated by annualizing their data from the first three quarters. The proportion of inflows to these economies in total inflows to their respective region or subregion in 2003 is used to extrapolate the 2004 data for Africa, Asia and the Pacific and Central and Eastern Europe. For 2004, Latin America and the Caribbean is estimated by annualizing the data from the first three quarters for principal host economies and by replicating the 2003 data for the economies for which no data are available so far.

The factors behind the fall, the sharpest in a very long time, included the dollar's slide against the euro, which makes investing in Spain more expensive for American companies, the maturity of sectors where there is heavy investment and fears that the

country's consumer boom and debt mountain may erupt. Some US investments are also understood to have been frozen as a result of the deterioration in US-Spain relations.

Spain's stock market registers one of the largest rises in Europe

The Spanish stock market rose 17.3% in 2004, the fastest rise in Europe apart from Italy (see Figure 4). The IBEX-35 index is still far from the high it reached in 1999 during the Dot Com boom (close to 12000) but together with the increase in 2003 of 28% it has returned to the level of 2000.

Figure 4. Main European Stock Markets, % Rise in 2004

Market	Rise (%)
Frankfurt (DAX)	7.3
London (FTSE)	7.6
Milan	18.1
Madrid (Ibex-35)	17.3
Paris (CAC-40)	7.4
New York (Dow Jones)	3.1

Source: respective stock markets.

The trading volume in 2004 reached an all time record of €36.8 billion, 28% higher than in 2003.

The market was driven in 2004 by the strong improvement in the earnings of listed companies (+21% in net income in the first nine months, according to the latest figures).

The economy continued to perform more strongly than most other EU countries. For example, the number of new cars sold (a good yardstick of consumption) was a record 1.5 million.

According to Morgan Stanley Capital International, the annual cumulative return of the Spanish stock market in the 10 years to October 2004 (including the reinvestment of dividends) was 15.1%, compared with 11% for the United States, 9.5% for Italy and 7.1% each for France and the UK.

Spain falls in Index of Economic Freedom Ranking

Spain was ranked 31st out of 161 countries in the 2005 Index of Economic Freedom (27th in 2004), drawn up by the Heritage Foundation and the Wall Street Journal (see Figure 5). Its score of 2.34 was slightly higher than the 2.31 registered in the 2004 index. The higher the score the greater the level of government interference in an economy and the less economic freedom a country enjoys.

Figure 5. 2005 Index of Economic Freedom Rankings, Selected Countries*

Rank / Country
1. Hong Kong
4. Estonia
5. Ireland
7. United Kingdom
11. Chile
12. United States
18. Germany
24. El Salvador
26. Italy
31. Spain
39. Japan

(*) Out of 161 countries.

Source: Heritage Foundation and Wall Street Journal.

The ranking is prepared on the basis of a list of 50 variables divided into ten broad factors of economic freedom including trade policy, the fiscal burden of government, government intervention in the economy and monetary policy. The main reason for the small slippage in Spain's overall score was the increased fiscal burden of government (see www.heritage.org/research/features/index/country.cfm?id=Spain).

The United States fell out of the top ten for the first time since the Index was created in 1995.