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Foreign Policy

Zapatero Reaffirms Troop Presence in Lebanon, Despite Death of Six Soldiers

José Luis Rodríguez Zapatero, the Prime Minister, vowed to keep Spain's 1,100 peacekeeping troops in Lebanon, despite the death of six soldiers killed when a roadside car bomb destroyed their armoured personnel carrier. It was the first attack of its kind against the 13,000 strong UN force in the country by a Sunni Muslim group attached to al-Qaeda.

Zapatero made this commitment to Lebanon's Prime Minister, Fuad Siniora, during his brief trip to Madrid. Siniora is hoping the United Nations will renew the mandate of international peacekeepers in Lebanon, due to expire in August.

Three of the six soldiers were Colombians serving in the Spanish armed forces. The vehicle did not have the equipment which enables such bombs to be neutralised. José Antonio Alonso, the Defence Minister, ordered the immediate instalment of it in all vehicles.

It was not known whether the Spanish contingent was deliberately targeted. Spain suffered heavily for supporting the US-led invasion of Iraq –191 people were killed in March 2004 in bomb blasts on commuter trains– and it now seems it is paying a price for being part of the expanded UN force in the south of Lebanon. Many Lebanese regard it as an extension of Nato rather than a UN peacekeeping mission.

Zapatero fulfilled a campaign promise when he took office shortly after the bomb blasts and pulled Spain's 1,200 peacekeeping troops out of Iraq. They had been sent there by the previous government of the conservative Popular Party (PP).

The PP also backs the troop presence in Lebanon, as one would expect. But it accuses the government of being 'hypocritical' by labelling it a peacekeeping mission when it bears all the marks of a 'military operation'. 'Recognise once and for all and without nuances the true nature of your work and tell us the truth about the risks', Eduardo Zaplana, the PP's spokesman in parliament, told Alonso. Gaspar Llamazares, the spokesman for the United Left, accused the PP of using the deaths in Lebanon to retroactively justify its support for the US-led invasion of Iraq, which, unlike the mission in Lebanon, was not approved by the UN.

In a separate development, seven Spanish tourists were killed in Yemen in a suicide car bomb attack blamed on al-Qaeda. There was no apparent connection between the two attacks.

Praises Deal Breaking the Deadlock on Failed EU Constitution

The agreement at Brussels that ended the bitter battle over the EU constitution was hailed as an 'important step' towards European political unity by José Luis Rodríguez Zapatero. Spain was the first country, in February 2005, to approve the constitution which was then placed in the fridge after rejections by French and Dutch voters.

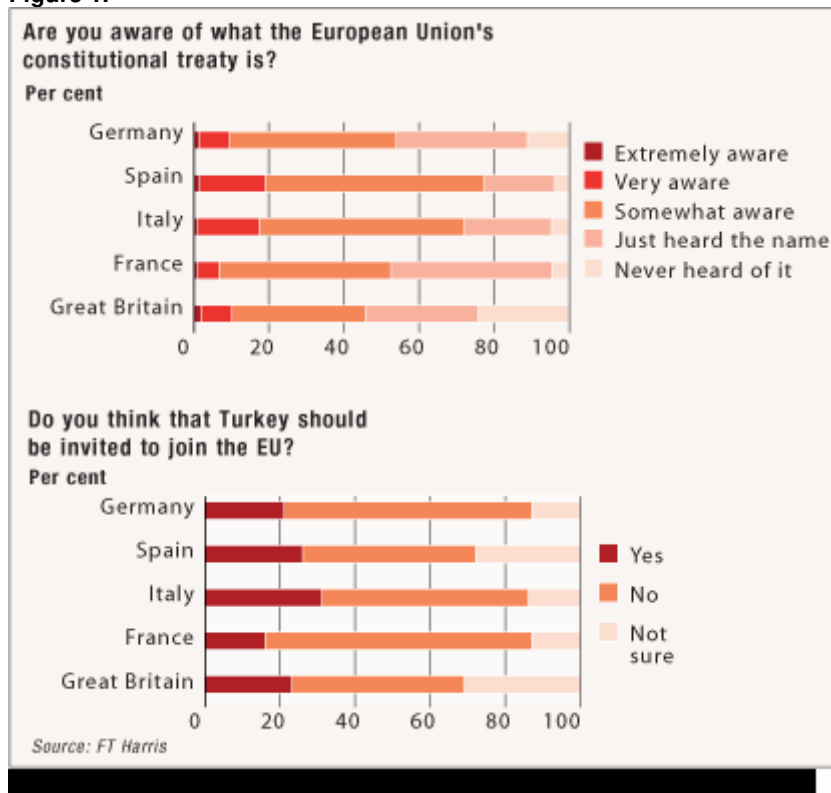
The 'mini' treaty will introduce a full-time EU President, a beefed-up Foreign Affairs chief and a new voting system and come into force in 2009. Madrid pushed for these changes when it hosted a 'friends of the constitution' summit in January, attended by 22 countries, and in May Zapatero met with Nicolas Sarkozy, France's President, and agreed a common position (see

www.realinstitutoelcano.org/materiales/docs/PropuestaHispanoFrancesa_ES.pdf).

Zapatero ruled out a new referendum on the constitution as he said it was not necessary. Spaniards, however, are largely in favour of another one. According to a poll by FT Harris, a total of 75% of Spaniards, compared with 71% of Germans, 69% of Britons, 68% of Italians and 64% of French, believe the treaty important enough to warrant a referendum. The survey was limited to the five big EU countries.

The same poll also showed that Spain was the most aware of the constitutional treaty (77%), while that figure fell to 54% in Germany and only 45% the UK. As regards Turkey's membership of the EU, Spain was the second country of the five most in favour of its entry (see Figure 1).

Figure 1.



Mariano Rajoy, the leader of the conservative Popular Party, chided Zapatero for not taking up the cudgels and defending, as Poland fiercely did, the voting system for the EU's Council of Ministers agreed at the Nice summit in 2000 when the previous PP leader, José María Aznar, was Prime Minister. This gave Spain and Poland almost equivalent power to much bigger countries, including Germany. It was Poland's strident position which almost saw the Brussels summit collapse; it was saved by Warsaw signing up to the new (and for Poland and Spain less favourable) voting system to make EU decisions easier, but only if it was delayed until 2014. A further transitional period would extend to 2017. A majority would comprise 50% of member states representing at least 60% of the population

As part of his foreign policy of returning to the 'heart of Europe', Zapatero did not want to wage war on this issue. 'Even though Spain had renounced these votes, now we have them thanks to Poland', Rajoy said.

Drive to Stem the Flow of African Immigrants

The government hopes its policy of encouraging employers to hire a certain number of temporary workers from Senegal will reduce the flow of illegal sub-Saharan immigrants to Spain. Some 30 businessmen accompanied Jesús Caldera, the Labour Minister, and Alfredo Pérez Rubalcaba, the Interior Minister, on a trip to Dakar to put the new policy into practice.

Thousands of Africans risk their lives every year by trying to reach the Canary Islands in fishing boats ill-prepared for the long journey, particularly during the summer, and produce a humanitarian crisis which stretches Spain's resources. The flow so far this year has been reduced, probably because of the large number of people repatriated in 2006 (some 5,000) which has discouraged others from making the perilous journey.

Five workshops are also being set up in Senegal to train future immigrants.

Until the recent influx of immigrants from Africa, Spain had no pressing reasons for a more pro-active policy towards the continent other than towards Morocco and Algeria which for strategic reasons have long been priority countries in foreign policy.

Anti-Americanism Abates

Spaniards' anti-Americanism appears to have touched bottom, but their view of US foreign policy is still among the least favourable in Europe and not that far behind some Muslim countries. In the latest Pew survey (<http://pewglobal.org/reports/pdf/256.pdf>) 34% of Spaniards had favourable views, up from the low of 23% in 2006 but still below the high of 50% in 2000 during the previous Popular Party government of José María Aznar, whose foreign policy was more aligned with Washington's than that of the current Socialist government (see Figure 2).

Figure 2. Favourable Opinions of the US (%)

	2000	2002	2003	2004	2005	2006	2007
Great Britain	83	75	70	58	55	56	51
France	62	63	43	37	43	39	39
Germany	78	61	45	38	41	37	30
Spain	50	–	38	–	41	23	34
Russia	37	61	36	47	52	43	41
Indonesia	75	61	15	-	38	30	29
Egypt	–	–	–	–	–	30	21
Pakistan	23	10	13	21	23	27	15
Jordan	-	25	1	5	21	15	20
Turkey	52	30	15	30	23	12	9
Nigeria	46	–	61	–	–	62	70
Japan	77	77	–	–	–	63	61
India	–	–	–	–	71	56	59
China	–	–	–	–	42	47	34

Source: Pew Global Attitudes Project, 2007.

Spain's support for US-led efforts to fight terrorism also remained low (21% compared with 38% in the UK, 43% in France and 42% in Germany) and 71% and 67%, respectively, were in favour of withdrawing troops from Iraq and Afghanistan. José Luis Rodríguez Zapatero pulled Spain's peacekeeping troops out of Iraq soon after taking office in April 2004, a hugely popular move in a country whose opposition to the US-led invasion of Iraq was the strongest in Europe, but increased the number in Afghanistan.

Spaniards' lack of confidence in George W. Bush's ability to do what is right in foreign affairs (88% expressed not much or none) was the third highest among the 47 countries surveyed after the Palestinian territory and Turkey. Only 7% expressed a lot or some support for Bush compared with 16% for Hugo Chávez, Venezuela's left-wing populist President. And, after Poland, Spain was the country most critical of Vladimir Putin, Russia's leader. These results suggest that Spaniards are strongly in favour of a foreign policy that is not closely aligned with any of the big powers.

Domestic Scene

Zapatero Reshuffles Government

Changes were made in four Ministries. Elena Salgado, the Health Minister, moved to the Ministry responsible for relations with the regions and replaced Jordi Sevilla. Her place in the Health Ministry was taken by the well-known medical researcher Bernat Soria. César Antonio Molina, the head of the Cervantes Institute, which promotes Hispanic language and culture abroad, replaced Carmen Calvo as Culture Minister and Carme Chacón, First Vice-President of the Parliament, took over from María Antonia Trujillo as Housing Minister.

The changes came after Zapatero's annual state-of-the-nation address, which saw an acrimonious exchange of views with Mariano Rajoy, the leader of the conservative Popular Party (PP), and eight months before the next general election due to be held by next March.

Zapatero defended his failed attempts to reach a peace settlement through negotiations with the terrorist organisation ETA. ‘I place no political price ahead of ending terrorism and violence, but ETA has made negotiating impossible’, he said. Rajoy rejected any dialogue with ETA unless it first laid down its arms and he called for early elections. ETA formally called off its ceasefire in June, following a bomb blast at Madrid’s airport last December which killed two people.

In what was interpreted as the opening shot of his re-election campaign, Zapatero promised to give families €2,500 for every child born in Spain. The country’s birth rate is very low but has begun to rise as a result of the influx of immigrants.

IMF Chief Rato to Leave Post, but Denies Return to Active Politics

Rodrigo Rato, who has headed the International Monetary Fund (IMF) since his appointment in June 2004 for a five-year term, is to leave his post in September. As a much respected former Finance Minister and leading figure in the conservative Popular Party (PP), his departure, with elections due to be held in Spain by next March, raised speculation that he would return to active politics.

Rato, whose policies during 1996-2004 laid the foundations of Spain’s still booming economy, said he was leaving the IMF for strictly personal reasons and did not plan to return to politics. His announcement was enthusiastically received in the PP, some of whose leaders privately believe that Rato’s return will enhance the party’s prospects in the next general election.

Foreign Population Reaches 10% of the Total Population

Spain’s population, the fastest-growing in Europe, reached 45.1 million at the beginning of the year and foreigners officially accounted for 10% of the total (see Figure 3). The EU, for the first time, overtook Latin America as the main source of immigrants (see Figure 4). Romanians (524,995) now account for the second largest number after Moroccans (576,344).

Figure 3. Spain’s Population, 1998-2007, and Foreigners’ Share

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Population (million)	39.8	40.2	40.5	41.1	41.8	42.7	43.2	44.1	44.7	45.1
Foreigners’ share (%)	1.6	1.8	2.3	3.3	4.7	6.2	7.0	8.4	9.3	9.9*

Note: the figures at January 1 of each year are based on those registered with local town halls. Not everyone does this. The UN’s figure is higher at 11%.

Source: INE (National Statistics Office).

Figure 4. Spain’s Foreign Population by Geographic Zone (1)

	Number	% of Total
EU-27	1,702,613	38.0
Rest of Europe	185,307	4.1
Latin America	1,532,403	34.2
Africa	797,592	17.8
Asia	216,769	4.8
North America	45,075	1.0
Others	2,809	0.06
Total	4,482,568	

(1) Figures at 1 January 2007 and based on those registered with town halls.

Source: National Statistics Institute.

The number of foreign immigrants, which includes everyone from retired Brits to workers from EU and non-EU countries, is based on those registered with a town hall. Immigrants have an incentive to do this as it entitles them to public health care and education. Not everyone does, however. For example, the number of Brits living in Spain is estimated at more than 700,000 and not the 314,098 officially registered. The actual number of foreigners living in Spain is thus higher than 4.5 million.

More than 350 people Holding Public Office 'Involved in Corruption Cases'

A total of 354 people holding public office, including several mayors, are reportedly involved in 89 cases of urban development corruption, according to Greenpeace's latest annual report on the state of the Spanish coastline (see www.greenpeace.org/espana/campaigns/costas/destrucci-n-a-toda-costa). Some of these cases, notably the one involving the Marbella town hall, are currently before the courts.

The global organisation which campaigns to protect and conserve the environment said 99,519 illegally-built homes had been detected and that 3 million more new homes and 316 golf courses were planned. According to Greenpeace, an area equivalent to three football pitches is absorbed every day by projects.

Transparency International, which every year draws up a corruption perceptions index, said in its 2006 report that re-classification of land for building purposes was the source of most corruption in Spain. The country was ranked 23rd out of 163 countries in 2006 with a score of 6.8 out of 10 (the nearer to 10 the cleaner the country).

Spanish Bishops on the Offensive Against Citizenship Course in Schools

The Roman Catholic Church is up in arms about a new obligatory course, Education for Citizenship, which will be gradually introduced into schools as of the autumn. In a statement the Bishops said the purpose of the course is to 'form the moral conscience of students' and that the state should remain neutral in such matters as no one has to the right 'to impose a moral formation that is not chosen'. They urged parents to use 'all legitimate means' to 'defend freedom of conscience and teaching'.

The course, aimed at developing the capability for thoughtful and responsible participation in political, social, economic and cultural life, is part of an education reform which was approved in 2006 by all parties except the conservative Popular Party (PP), the main opposition. The PP's leader, Mariano Rajoy, said he would eliminate the course if he wins the next general election.

Such courses are being increasingly promoted around the world, and are an area in which the United Nations Education, Scientific and Cultural Organisation (UNESCO) is involved. In UNESCO's view, 'multicultural societies are faced with the problem of creating nation-states that recognise and incorporate the diversity of their citizens while embracing an agreed set of values, ideals and goals to which all citizens are committed'. Spain has received more than 4.5 million immigrants in the last seven years.

The Church has locked horns with the Socialist government over several other issues including changes to religious education in schools, stem-cell research and gay marriage and adoption. It has lost a lot of the influence and power it had during the 1939-75 Franco dictatorship, particularly in education, when it was accorded a privileged

position for having supported his ‘crusade’ in 1936 which sparked the civil war. The Church has gone on the offensive against what it views as the government’s ‘radical laicism’.

Spain’s Ambassador to the Vatican, Francisco Vázquez, has complained several times to the Church authorities in Rome and in Spain about a very popular and belligerent programme aired by Cadena Cope, the network of radio stations 50% owned by the Bishops’ Conference.

The Economy

European Commission Imposes €152 million Antitrust Fine on Telefónica

Telefónica, Spain’s dominant telecoms group, was ordered to pay a €151.8 million fine for operating a ‘margin squeeze’ during five years on its broadband rivals. It is the largest such fine on a telecoms company. Neelie Kroes, the EU Competition Commissioner, said it was designed to ‘send a strong signal to dominant undertakings in all sectors that could be tempted to engage in similar practices’.

The anti-trust regulator said Telefónica set the wholesale cost of accessing its broadband network so close to the retail price that rivals were forced to make losses to stay in the market.

The company will appeal against the fine which it said was ‘unjustified and disproportionate’. Telefónica said its rates had been approved by Spain’s Telecoms Market Commission (CTM) and that it was being punished for ‘being caught between two sets of contradictory rules –those of the CMT and those of the European regulator–’.

Spain’s Per Capita GDP Surpasses the EU-27 Average

Spaniards were richer in 2006 than the average European citizen as their per capita GDP reached 102% of the EU-27 average and was not far behind Italy’s 104%, according to the first estimates by Eurostat (see Figure 5). However, at 91.2% Spain’s income per head was still below the EU-15 average and the EU-25 average (98.4%).

Spain’s overtaking was the result of Bulgaria and Rumania, the two poorest countries, joining the EU and pushing down average incomes. Although Spain’s per capita income is now slightly higher than the EU average it will remain a net recipient of EU funds until 2014.

Figure 5. GDP per Inhabitant in 2006 in Purchasing Power Standards (EU-27 = 100)

Country	Country	Country
280 Luxembourg	113 Germany	75 Portugal
144 Ireland	113 France	67 Estonia
131 Netherlands	104 Italy	66 Hungary
129 Austria	102 Spain	63 Slovakia
127 Denmark	94 Cyprus	58 Lithuania
123 Belgium	89 Greece	56 Latvia
121 Sweden	87 Slovenia	53 Poland
118 UK	79 Czech Republic	38 Rumania
117 Finland	77 Malta	37 Bulgaria

Source: Eurostat.

And the Number of Millionaires Rises

The number of dollar millionaires (€734,670) rose by 6% in 2006 to 157,800, according to the latest World Wealth Report for high net-worth individuals, prepared by the investment bank Merrill Lynch and the consultancy Capgemini.

The main factors behind this were the continued strong real GDP growth and job creation, lower inflation and the larger proportion of households owning shares, the capitalisation of the stock market surpassing €1 trillion for the first time.

The calculation is based on the values of private equity holdings stated at book value as well as all forms of publicly-quoted equities, bonds, funds and cash deposits, but excludes collectibles, consumables, consumer durables and real estate used for primary residences.

Spain entered the select club of the 10 countries with the most millionaires in 2006. Since 2002, the number of Spain's millionaires has risen by close to 53,000.

Cepsa to Enter Asia with €700 million Investment

Cepsa, the petrochemicals company, is to invest €700 million in building an aromatics plant in South Korea and acquire another already existing plant with Hyundai Oilbank. Production will be earmarked for China.

La Seda to Acquire Amcor's European Business

La Seda, the textiles and chemicals group and one of Europe's largest producers of artificial and synthetic fabrics and yarns, such as polyester, polythene and viscose, is to buy the seven European plants of Australia's Amcor, the world's leading maker of plastic soft-drink bottles, for €425 million. Last year La Seda bought Turkey's textiles group Advansa, which also has plants in the UK and Rumania, for €320 million.

Direct Investment Abroad Reaches New High

Spain's direct investment abroad was a record US\$89.7 billion in 2006, more than twice the previous year's level, according to the first estimates by the OECD. This investment was the third highest among OECD countries after the US and France. Inward investment, however, dropped by US\$5 billion to US\$20 billion.

Among the acquisitions in 2006 were Telefónica's €26 billion purchase of O2, the UK mobile telephony operator, the biggest-ever Spanish acquisition of a foreign company, and the purchase by a consortium led by Ferrovial of the UK airports operator BAA, the world's biggest private sector airports business.

Between 1997 and 2006 Spain's total net outflow of investment amounted to US\$181 billion, the sixth largest in the world (see Figure 6).

Figure 6. Cumulative FDI Flows in OECD Countries, 1997-2006 (US\$ billion)

Country	Outflows	Inflows	Net Outflows
1. France	871.8	480.8	391.0
2. Japan	330.9	53.4	277.5
3. UK	1,045.3	797.2	248.2
4. Switzerland	318.5	103.4	215.0
5. Netherlands	513.1	299.1	214.0
6. Spain	420.8	239.8	181.0
7. Italy	198.2	128.8	69.4
8. Canada	323.1	285.3	37.9
9. Germany	510.2	473.2	37.0
10. Norway	67.0	39.4	27.5

Source: OECD Employment Outlook.

According to an exercise carried out for the first time by the Bank of Spain, the difference at the end of September, 2006 between the recorded value of the total stock of investment abroad (€372.8 billion) and the theoretical market value (€598.1 billion) was €225.3 billion. This figure, at least in theory, represents the unrealised capital gains. The calculation was based on investments between 1993 (when the stock of this investment stood at 4.2% of GDP) and September 2006 (39.5% of GDP).

Spain Remains in Second Place in Tourism League

Spain attracted 58.5 million tourists in 2006 and earned US\$51.1 billion from them, consolidating its position as the world's second tourism destination (see Figure 7).

Figure 7. Top International Tourism Countries

Rank	Arrivals (millions)	Rank	Receipts (US\$ billion)
1. France	79.1	1. United States	85.7
2. Spain	58.5	2. Spain	51.1
3. US	51.1	3. France	46.3
4. China	49.6	4. Italy	38.1
5. Italy	41.1	5. China	33.9

Figures for 2006.

Source: World Tourism Organisation

Stock Market Loses its Shine

The Spanish stock market, one of the star performers in 2006 when its Ibex-35 index rose by 32%, was one of the laggards in the first half of 2007. The index increased 5.2%, the smallest rise among the main markets after Italy's MIB (see Figure 8).

Figure 8. Performance of Stock Markets, First Half of 2007

	% rise
Shanghai (China)	42.8
Dax (Germany)	21.38
Amsterdam E. (Holland)	10.67
OMX (Sweden)	9.38
CAC 40 (France)	9.26
Hang Seng (Hong Kong)	9.06
FTSE 100 (UK)	6.22
Nikkei (Japan)	5.30
Ibex (Spain)	5.27
MIB (Italy)	1.26

Source: Bloomberg.

Despite still strong macroeconomic fundamentals and buoyant corporate earnings, the Spanish market's performance has been lacklustre and volatile. One reason for this is the fall in property and construction stocks amidst fears of a bursting of the construction sector bubble. The rise in house prices, generally regarded as overvalued, is slowing down and construction activity is decelerating.

Real Average Wages Declined in 1995-2005

Spain was the only one of the 30 OECD countries whose average annual growth in real average wages declined between 1995 and 2005 after rising between 1990 and 1995. Real average wages rose 1.9% a year between 1990 and 1995 and then declined 0.5% a year in 1995-2000 and 0.3% in 2000-05, for a total of 4%.

This was because of the very strong creation of jobs in 1995-2005 (6.8 million jobs), many of which were taken up by immigrants, particularly in the construction, tourism and agricultural sectors, on low wages. This pushed down the average wage, which in 2005 in current dollars stood at US\$26,926 in Spain (see Figure 9), and widened the income distribution gap a little. In 2005 (latest available year), the richest 20% of the population received 5.4 times more than the bottom 20%, compared with an EU-25 average of 4.9 times.

Figure 9. Average Wages in Selected OECD Countries (1)

	In Current US\$	In US\$ Purchasing Power Parities
France	38,580	32,981
Germany	38,001	34,310
Italy	31,051	27,724
Poland	10,571	16,502
Spain	26,926	27,388
Sweden	38,244	30,351
UK	44,974	40,520
EU-15 average	37,409	33,357

(1) 2005.

Source: OECD.

The minimum wage, however, rose 24% between 2004 and 2007.

Tax Burden Continues to Rise

Spain's booming economy and very strong job creation, and not higher tax rates, continued to lift the tax burden. In 2006 tax receipts reached 36.5% of GDP, one percentage point more than in 2005 and two more than in 2004, but still below the European average of 40.8%.

China Lifts Restrictions on Imports of Spanish Ham

China is to remove its restrictions on imports of Spanish ham, a long-standing grievance between Madrid and Beijing. The announcement was made during an official visit to the country by King Juan Carlos who was accompanied by around 300 businessmen attending the second Spain-China business summit.

Spain and China signed a strategic alliance agreement in November 2005 during the visit to Madrid of President Hu Jintao covering many areas including economic collaboration. This gave Spain a level of relations with China previously only enjoyed in Europe by the UK, Germany, France and Canada. Spain's trade with and investment in China is the lowest of these four countries. Of the almost US\$16 billion of bilateral trade, 89% consists of Chinese exports to Spain and 11% Spanish exports to China.

Imports of ham, a luxury item for the new emerging middle classes (some 100 million people) were expected to begin before next February when the Red Pig Year in the Chinese calendar ends.