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Spanish foreign policy monitor: April-June 2012

Manuel Manrique

»» The deterioration of the banking crisis and pressure on Spanish debt have dominated Spanish current affairs during the past three months, which culminated in the European Union (EU) granting up to €100bn to back the Spanish financial sector on 9 June. This difficult situation has set the tone for the government's external action, dominated by a reactive and crisis management approach. Although more visible in its actions towards Europe, this approach has also been present elsewhere, such as the in response to Argentina's nationalisation of YPF, the tension surrounding Gibraltar or the decision to postpone the launch of the 'Marca España' (Spain Brand) campaign.

Facing these often difficult situations, the Spanish government has been unable or unwilling to demonstrate that it is following a defined strategy. This lack of clarity and internal coordination has given the impression that foreign action is limited to ad hoc response to events. The ministry of foreign affairs and cooperation (MAEC by its acronym in Spanish) is developing strategic plans of action, but the process is slow and inconspicuous. The lessons learnt from these past months do not only suggest the need to speed up this process, but also that coordination and communication must be improved to achieve a proactive and effective foreign policy.

THE NEW BAILOUT SCENARIO

The debates around the eurozone crisis, Spanish debt and the troubled financial system have undeniably dominated current affairs this spring. Despite these issues' importance, the limited space and

HIGHLIGHTS

- The lack of a clear European strategy has contributed to the perception that Spain is acting in a confused and uncoordinated manner.
- This perception has extended to other foreign policy arenas, where a reactive and crisis management approach also prevails.
- A strategic framework and coordination mechanisms are needed in order to improve response capacity and diffuse the sense of improvisation.

»»»»» overlap with national policy will not permit their detailed analysis here. The most relevant aspects concerning foreign policy however, will be highlighted. The first is the fact that Spain has engaged in a significant number of foreign policy actions, especially since the banking crisis worsened in May, yet such actions have not revealed an underlining strategy. It is unclear, however, if this was a deliberately calculated approach to European negotiations, or whether the complicated circumstances actually prevented the development of a strategy.

President Rajoy has remained committed to austerity measures and Germany's instructions, despite the worsening economic situation (see Spanish foreign policy monitor: January-March 2012 – hereafter SFPM). This proximity was illustrated by a photo of Rajoy and Angela Merkel together on a boat during the NATO summit in Chicago. The economic minister (and most senior dealer with Europe), Luis de Guindos has also met with his German counterpart, Wolfgang Schäuble, on several occasions. The two countries appear to have courted an improbably close relationship until at least mid-June, reflecting Spain's conviction that nothing happens in Europe without Germany's support.

In parallel, however, Spain has responded – although more discretely – to the changes in Europe, especially François Hollande's victory in the French presidential elections. The change in power in France has opened the door to a greater emphasis on growth policies and potential further eurozone integration. Rajoy showed that he was in tune with Hollande during their meeting on 23 May, and two weeks later, after the first meeting between Guindos and Pierre Moscovici (the French finance minister) the latter supporting the Spanish banking rescue, announced three days later. Recapitalisation of the Spanish banks from EU funds was initially proposed by Hollande and coldly received by Rajoy, despite his subsequent acceptance. Rajoy also met with other European leaders: in bilateral summits with Poland (12

April) and Portugal (9 May), and receiving a visit from the Dutch prime minister on 7 June. In these meetings Spain sought the support of fellow member states (unsuccessfully in the case of Holland). Since the nationalisation of Bankia on 10 May, and the consequential pressure on the financial system, international consultations increased. Vice-president Soraya Sáenz de Santamaría met the US Secretary of the Treasury, Timothy Geithner, and Christine Lagarde, the managing director of the IMF on a visit to the US on 31 May.

The lack of a sole authoritative voice and clear strategy, together with conflicting government noises has, however, contributed to the perception that the government is acting in a confused and disorganised manner. It remains even harder to interpret the implications of the €100bn rescue package for the banking sector, given the lack of data and the government's contradictory indications: it was firmly opposed to any type of European intervention until it actually happened, and then it was presented as a victory. This reaction, tinged with a certain degree of nationalism – similar to the treatment of the deficit as a matter of 'national sovereignty' (see SFPM Jan-Mar) – did not sit well among European member states. The 9 June scenario will define Spain's policy parameters for the coming months, which is why it is crucial that the government improves its internal coordination and communication strategy in the lead up to key meetings such as the European Council on 28 June.

YPF AND LATIN AMERICA

Another important foreign policy issue at the centre of current affairs was the Argentinian government's decision to nationalise YPF. The increasingly clear indications that Cristina Fernández de Kirchner sought to expropriate the Argentinian subsidiary of REPSOL-YPF mobilised the Spanish government. When, in the second week of April, the decision seemed imminent, the ministers of foreign affairs and

industry adopted a harsh tone in their statements in order to try and prevent the decision. This, however, and contrary to some of the government's indications, was not sufficient. The nationalisation of YPF was announced on Monday, 16 June, after Cristina Fernández returned from the summit of the Organization of American States (OAS) general assembly. It caught Rajoy's government by surprise and forced it to confront its first major foreign crisis.

Following the announcement, in addition to adopting inconsequential unilateral measures – such as putting a stop to Argentinian biodiesel imports – Spain centred its strategy on seeking international support. While touring

Mexico and Colombia, Rajoy secured the backing of these countries. The EU also sided with Spain, although it did not accept the proposal to exclude Argentina from the negotiations between the EU and Mercosur. Only the USA reacted coldly towards Spain's request for support. A multilateral process and seeking protection from the courts are the only viable options for

Spain, despite initial attempts to make a national issue of the dispute. This reaction, along with the overconfidence and delayed damage control, resulted in being detrimental to Spain. The expropriation of the subsidiary of Red Eléctrica de España in Bolivia on 1 May (leaving the noticeable differences between the nature of the nationalisation and the size of the company to one side) highlighted the risks associated with adopting a confrontational strategy in a region where Spain has important interests.

Conscious of this, the government launched a diplomatic offensive during the weeks following the YPF nationalisation, aimed at limiting both political and economic damage. This has led to an increase in meetings with strategic partners, especially Brazil. Successive trips have been made there by the Secretary of State for Ibero-America (April), the foreign affairs minister, King Juan Carlos (May) and Rajoy (June). This rapprochement is another step towards recognising the strategic value of the country for Spain, given its growing global importance, the possible collaboration in triangular development cooperation or opportunities for Spanish companies in the Brazilian market and public tenders – as demonstrated by the large delegation of business people that accompanied the king on his trip. Following his visit to Brasilia – where Dilma Rousseff confirmed her attendance at the Ibero-American summit in Cádiz – the king travelled to the Atacama desert in Chile, where he attended the launch of the Pacific Alliance between Chile, Mexico, Colombia and Peru. These events do not only mark the importance of these countries to Spain, but also that the redefinition of relations with Latin America must emphasise both bilateral relations and global triangulation with other important partners.

THE DIVERSITY OF FOREIGN ACTION

All eyes were on the king's visit; it being a well-calculated international appearance intended to improve his public image, marred by an ill-fated hunting trip in Botswana in April. The royal family is considered to be an important tool for foreign policy, furthermore apparent in the approach towards Latin America, as well as the escalation of tension regarding Gibraltar. In the third week in May, Queen Sofia cancelled her trip to London. It was a sign of the dissatisfaction surrounding Prince Edward's visit to Gibraltar (on 11 June) and the aggravation suffered by fishermen in the waters surrounding the Rock, to which Spain had responded by sending Civil Guard patrol boats

After the YPF case, the government launched a diplomatic offensive aimed at limiting political and economic damage



»»»»» to escort the fishermen. Tension surrounding Gibraltar is the result of these one-off events and Margallo's decision to review the Trilateral Forum (see SFPM Jan-March). It may also be prolonged given Spain's decision to report the territory's fiscal regime to Europe. Despite the lesser nature of the issue, compared to the YPF case or the debt crisis, it is in the approach towards Gibraltar where a clearer strategy, as defined by the foreign ministry, is apparent. This strategy evidences the 'patriotic' nature, which according to Margallo, must be at the centre of Spain's foreign policy. This mindset could, however, annoy European partners and clash with economic interests and those of companies overseas.

The tension between Spain's interests and that of its companies requires special attention, given that it is at the heart of what minister Margallo wanted to be his flagship initiative: 'Marca España' (Spain brand). The travails of the launch also constitute a symbolic example of the problems that plague Spanish foreign policy. Despite the foreign ministry's efforts during recent months, the launch date for the project has been postponed three times (25 April, 15 May, 13 June) and finally been delayed until autumn. These setbacks make it seem that the ministry is improvising and lacks a strategy. Beyond the 'branding' involved in the 'Marca España', companies are enjoying veritable successes overseas and Spanish diplomacy is discretely progressing in promoting these interests.

As well as in Latin America – the primary focus for Spanish companies and banks – the Spanish government is making efforts to engage the Gulf countries. The secretary of foreign affairs has already made two tours of six of this region's countries, exploring opportunities in sectors such as infrastructure, renewable energies, the food industry and tourism. Spain also hosted the Saudi minister of defence, with whom negotiations are ongoing for the sale of 200 Leopard tanks for an estimated value of €3bn. Furthermore, in the American market,

Abengoa (highlighted as an example by Barack Obama himself), won a contract for almost €300m to design and construct a solar power plant in California. Beyond the economic dimension however, no significant progress has been achieved in transatlantic relations. Obama and Rajoy were both present at the Seoul Nuclear Security Summit, NATO's summit in Chicago and the G20 in Los Cabos, but they did not meet individually. Despite the willingness to sign the military cooperation agreements to include Rota in the missile defence, proceedings have been delayed and they shall only come into force a year later than announced.

CONCLUSION

After six months of Mariano Rajoy's government, foreign action seems to have separated into two unequal areas. On the one side the MAEC continues in its efforts to promote commercial diplomacy, re-launch relations with Latin America and develop strategic documents. Two of said documents, the Fourth Master Plan for Cooperation and the new Spanish security strategy, shall be updates of ones already existing. However, the announcement for a Foreign Action Plan for the next four years (for which details are still unknown) could bring forward a medium-term strategy that helps identify foreign policy priorities. Institutional changes may also take place with the announced reform of the Foreign Service law. All of these processes, however, are making slow progress and have not yet borne much fruit.

In parallel, these months seem to have pushed the government's foreign action abilities to the limit. Although in part due to unexpected events, its impact seems magnified by the government's management. The absence of a clear strategy – notably in Europe, either because it is non-existent, or because it has purposely been concealed – the lack of coordination and an unsuccessful communication strategy contribute

to the sense of there being a dearth in direction. This is an important problem, even more so considering that the foreign sphere – especially European – shall be key during coming months, even years. In order to overcome the crisis the government will have to simultaneously manage domestic issues as well as dealing with Europe and other regions such as Latin America and the Mediterranean, promoting strategic, economic and political interests. For this purpose a clear strategic framework needs to be defined and communicated, and a mechanism for coordination must be put in place to improve the government's response capacity, and dismiss the ad-lib improvisation that currently saddles external action.

Manuel Manrique is a researcher at FRIDE.

e-mail: fride@fride.org
www.fride.org