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## **Cross-border regional development in Gibraltar**

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## **Abstract**

Political borders are a reality regional development has to cope with, even if they do not necessarily correspond to the functional boundaries of regional economies. EU membership has afforded regions located close to national borders a high degree of permeability, supported by EU cohesion policy through Interreg projects. But how can these cross-border regions manage to develop under political tides towards re-erecting hard borders? The present study examines the regional economy of British Gibraltar in relation to its Spanish neighbor region, and proposes ideas on how to develop Gibraltar's economy in a post-“Brexit” reality. Despite continuing uncertainties about the nature and scope of future EU-UK relations, this study presents possibilities for future cross-border regional cooperation, and for developing Gibraltar's local economy within a region that may be crossed by a hard border but even so remains functionally strongly integrated.

Cross-border regional development in Gibraltar  
Report on a student research project at Heidelberg University

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## List of abbreviations

EEA	European Economic Area
ERDF	European Regional Development Fund
ESF	European Social Fund
est.	Estimated
EU	European Union
EUR	Euro
GBP	British Pound
HM	Her Majesty's
MICE	Meetings, incentives, conventions and exhibitions
OP	“Operational Programme”
SME	Small and medium-sized enterprises
SUDOE	South West Europe Interreg program
UK	United Kingdom of Great Britain of Northern Ireland

## Preface

Political and administrative borders are a reality regional development has to cope with, though functional economic relationships within a wider region often cross borders. From a bird's eye view, regions may appear coherent and dense, and economic analysis of commuter flows, input-out relations, or investments typically confirm more or less intense interrelationships within cross-border regions. However, political or administrative borders crossing functional regions can considerably complicate economic relationships within these regions and thus limit the perspectives of regional development. While even inter-municipal administrative boundaries confront regional development with some obstacles in terms of common strategy development and implementation – a phenomenon of local parochialism found within quite a few regions – national boundaries crossing a functionally integrated region most severely constrain regional development.

Within the European Union, economic and political integration has considerably increased the permeability of national borders and thus created new opportunities for cross-border regional development – or at the very least, some degree of cooperation in regional development between regional agents on both sides of borders – in functionally integrated regions crossed by national borders. Instruments such as Interreg projects under the umbrella of EU cohesion policy have supported cross-border cooperation in regional development. Currently, however, it seems that the political tide in Europe and other Western countries is turning back from supranational or international cooperation and towards a stronger emphasis on the nation-state. A major element of this political tide is the call for re-erecting “hard” national borders. This current political trend has become undoubtedly clear with British voters' decision to leave the EU, or what is popularly called “Brexit”.<sup>1</sup>

The case of Gibraltar, a small British exclave surrounded by a Spanish region it shares strong functional interrelations with, illustrates the difficulties regional development in cross-border regions faces in view of the current political turn towards the nation-state. Gibraltar is a particularly interesting case because politically it is the subject of continued friction between the UK and Spain but economically it is clear that Gibraltar and its Spanish hinterland depend on each other. Some kind of special arrangement allowing for cross-border cooperation in

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<sup>1</sup> While the term “Brexit” is overly simplistic and thus *per se* unsuitable for being used in scientific discourse, it has also become the commonly used term for the complicated and multilayered process of the UK leaving the EU, negotiating the UK's future relationship with the EU, and defining the degree of applicability of EU law in the UK in the future. Because of its widespread use and acceptance, the present study uses the term “Brexit” but puts it in quotation marks to stress its inability to capture the complexity of the processes it is meant to describe.

regional development will have to be found for Gibraltar and its wider region. This study sets out to propose how future cooperation between Gibraltar and its surroundings could look like, based on a regional economic analysis.

As the outcome of a seminar in economic geography at Heidelberg University, research for the present study was performed by students. Due to the constraints of a university seminar, on-the-ground research in Gibraltar and Spain was not possible. Therefore, the study's methodology is based on desk research, covering both a document analysis of literature and online sources and an analysis of available secondary data. It is clear that such a limited methodology cannot claim to capture in detail the intricacies of a regional economy. Thus, the conclusions and recommendations derived should be regarded as preliminary ideas only. Yet, the study's insights and results are suitable and indeed meant to provide an impetus for further discussing opportunities for cross-border regional development. For better or worse, in an era where national borders are re-gaining importance, such a discussion is highly important.

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*Heidelberg, September 2017*

# 1 Introduction: cross-border regions and their challenges<sup>2</sup>

Defining regions is a difficult task. How to come up with criteria on deciding what constitutes a region is subject to a considerable body of literature (e.g. Bergmann 2005: 139; Koschatzky 2001: 176-177; Sternberg 2005: 120; Schätzl 2003: 99). Seen from the perspective of economic geography, defining regions along functional criteria arguably is the most convincing approach. For instance, Sternberg (2005: 120) states that a region consists of an urban core with its suburban or rural hinterland within a commuting distance. Implicit in this definition is that the coherence of a region is defined by commuter flows and thus by (one aspect of) functional economic relationships within the spatial entity that is a region. Other functional relationships amenable to defining a region are input-output relationships between buyers and suppliers or investments. For instance, Hellmann (2000: 292) cites the policy of some Silicon Valley venture capitalists to invest within a two-hours' distance, implying the spatial boundedness of investment flows. We might, then, define a region along a set of criteria consisting of economic or wider social interrelationships between agents, essentially taking a functional and relational view of the regional economy (Bathelt and Glückler 2003; 2012).

However convincing a functional perspective on the regional economy is, reality is more complex and multilayered. Apart from the functional interrelationships that permeate the economic layer of a region's society, the political and administrative spheres are shaped and delimited by legally defined borders. These borders if crossing functionally integrated regions do not render functional economic interrelationships impossible. Indeed, cross-border and even international commuter flows, investments (formally in the form of foreign direct investment but still in the spatial proximity of a cross-border region), or input-output relationships (formally imports and exports) abound. Yet, political or administrative divisions on various scales make these cross-border functional economic interrelationships more complex and complicated, and we might expect them to reduce allocative efficiency by increasing transaction costs. Apart from constraining functional interrelationships in the economic fabric of a functionally integrated cross-border region, pursuing strategies of regional development for the appropriate spatial subject, the functional region, is faced with

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<sup>2</sup> Throughout the study, U.S. spelling is used, except in direct quotes where original British spelling has been kept.

complex problems of policy coordination between different administrative and political entities both in strategy development and implementation.

These complications may be less important but still prevalent on the local scale where municipal boundaries make coherent policymaking for regional development difficult to achieve. Structural features following an administrative logic such as inter-municipal tax competition might lead policymakers and administrators to pursue beggar-thy-neighbor policies instead of cooperating with each other to enhance the development prospects of their region as a whole. The problem is yet much more intricate on the international level. Functionally integrated regions crossed by a national boundary (or worse still, several national boundaries), are not only subject to differing interests in the political and administrative spheres, but additionally to differing legal systems and business environments. National borders are not always easily crossed by people, goods and services, and doing so involves transaction costs.

Within the European Union (EU), economic integration since the signing of the Treaty of Maastricht in 1992 has significantly eased constraints to functional interrelationships in cross-border regions. While many constraints remain, national borders between EU member states have generally become permeable because of the free movement of people, goods, services and capital, and additional layers of integration such as the Schengen agreement and the introduction of the common currency have (for participating member states or, in some instances, non-member states) further facilitated cross-border functional economic interrelationships. EU cohesion policy has supported cross-border regional cooperation, including in functionally integrated cross-border regions, thus trying to match cross-border functional linkages on a region's economic layer with cross-border cooperation in regional development on the political and administrative layers (European Commission 2015a). All of these processes have made national borders between EU member states much softer than they used to be, arguably reducing transaction costs for functional interrelationships in cross-border regions.

Recently, however, within the EU and beyond, the political tide seems to have turned back towards greater reliance on the nation-state and less reliance on supranational or international cooperation. Current political sentiment appears to favor re-erecting “hard” borders. The decision made by a majority of British voters for the UK to leave the EU is arguably the most visible expression of this new sentiment clearly opposing the basic EU principle of free movement of people, goods, services and capital. While the conditions of future EU-UK

relations remain unclear for the time being, it is evident that cross-border regions such as Northern Ireland and Gibraltar will have to find ways to keep the benefits of functional relationships with their adjacent regions in EU member states at lower transaction costs than would be the case if hard borders were re-erected.

Gibraltar is a particularly interesting case because of the intensity of functional interrelationships between this small British exclave and its Spanish hinterland. While Gibraltar has been the subject of political friction between the UK and Spain over and over again, in the economic sphere cooperation between Gibraltar and its Spanish neighbour region appears to be well established and intense. With the perspective of the UK being outside of the EU, Gibraltar basically has two options in developing its local economy: The first option is to pursue what Pike et al. (2017: 47) call “‘low-road’ strategies based on low productivity, low wages, low skills, low value-added” by lowering taxes and focusing on attracting various kinds of offshore businesses, thereby benefitting from Gibraltar’s future hard border to the EU but at the price of pursuing a “beggar-thy-neighbor” or “race to the bottom” policy which will most likely be unsustainable in the long term. The second option for Gibraltar is to pursue a “high-road” strategy of “qualitatively better, more sustainable and appropriate forms of local and regional development” (Pike et al. 2017: 47) through cross-border regional cooperation between Gibraltar and its Spanish hinterland, allowing for a more efficient spatial division of labor and the specialization in higher-value-added activities in value chains present in the wider region.

The present study starts on the assumption that the second option, pursuing a “high-road” strategy through cross-border cooperation between Gibraltar and its Spanish neighbor region, is preferable. While it may be that cross-border cooperation between British Gibraltar its Spanish neighbor region becomes more difficult in a post-“Brexit” context, we believe that a number of opportunities for cross-border cooperation in regional development exist and will continue to do so. The present study sets out to propose some preliminary ideas for cross-border cooperation, based on an analysis of the regional economy of Gibraltar and its Spanish neighbour region, or what together can be qualified as a functionally integrated cross-border region. The study’s methodology is based on desk-research consisting of a document analysis of literature and online sources and an analysis of available secondary statistical data. While the methodological constraints of the study do not allow for a comprehensive set of detailed recommendations, it does provide some points to feed the further discussion on how to embed Gibraltar’s local economy in its cross-border regional environment.

The study is structured as follows: The next chapter will present a concise overview of the cross-border regional economy of Gibraltar and its adjacent Spanish cities and localities. Then, economic policies pursued by Gibraltar so far are explored. Finally, possibilities for cross-border cooperation in regional development are discussed. The study ends with some general observations and conclusions.

## 2 Gibraltar’s local economy

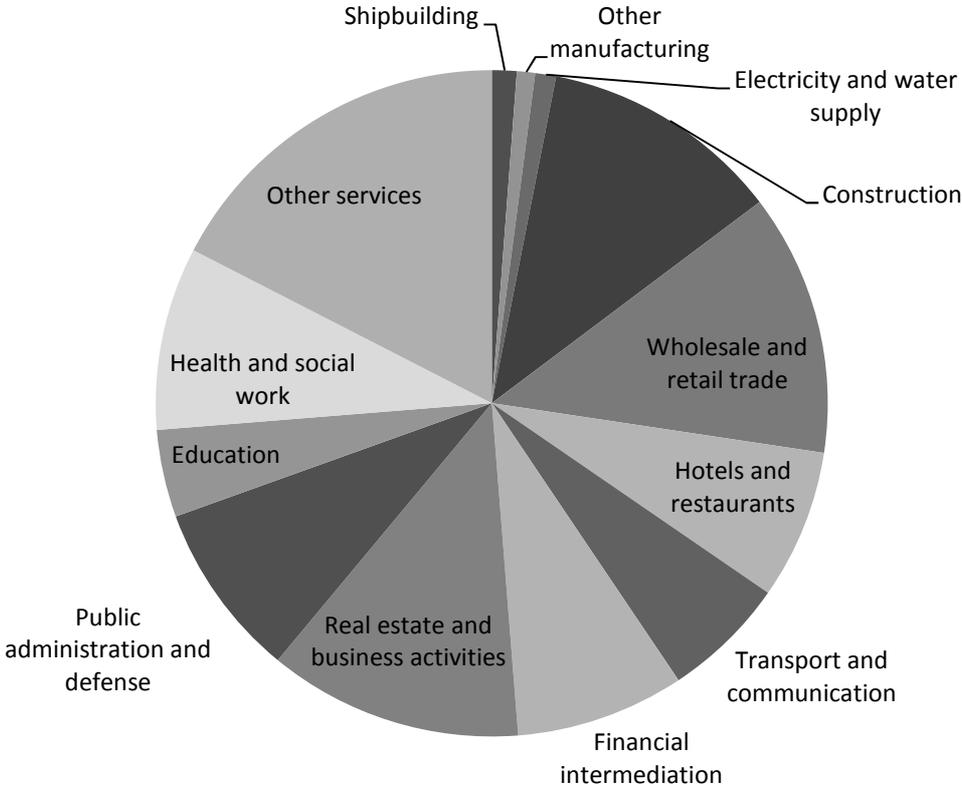
This chapter gives a brief overview of Gibraltar’s local economy, its major sectors including highly relevant tourism sector, and its educational landscape.

### 2.1 A sectoral overview of Gibraltar’s local economy

In 2016, the overall number of employees in Gibraltar stood at 27,073, an increase of 3.6 percent compared to 2015. Most of them (11,065) are Gibraltarian or other British nationals (5,469). Spanish nationals account for 6,867 employees, emphasizing the high importance of Spanish foreign workers in Gibraltar’s local economy and thus a major functional interrelationship of this cross-border region (Statistics Office HM Government of Gibraltar 2016a).

Fig. 1 illustrates the major industries present in Gibraltar according to their size in terms of employment in 2016.

Figure 1: Major sectors in Gibraltar’s local economy (number of employees, 2016)



Source: Statistics Office HM Government of Gibraltar (2016a: 1).

It becomes clear that Gibraltar is a local economy overwhelmingly dominated by services: Of a total of 27,073 employees jobs, only 324 jobs (1.2 percent) are in the shipbuilding industry

and even less, 235 (0.9 percent), in other manufacturing industries. Service industries such as wholesale and retail trade (3,439 jobs), real estate and business activities (3,314), or construction (3,145) dominate employment in Gibraltar. Apart from the three largest service industries mentioned, other notable ones include financial intermediation, hotels and restaurants, transports and communication, health and social work, public administration and defense, and education (Statistics Office HM Government of Gibraltar 2016a: 1).

Another fact underlining the dominance of the tertiary sector in Gibraltar's economy is that the financial services industry accounts for 20 percent of Gibraltar's GDP. Part of the strength of the finance sector is based on the development of the insurance industry in Gibraltar which "has seen the fastest growth, with the number of licensed insurance operations currently standing at 61. Gibraltar is firmly established as a mainstream insurance domicile within the EU" (Ernst & Young 2016: 13). Gibraltar's port is an important driver for the transport services industry and Gibraltar become an attractive place for ship registration (Ernst & Young 2016: 13-14).

Other services include, for instance, the gambling industry. Several international remote gambling companies have located in Gibraltar and as of June 2017, Gibraltar hosted 30 licensed operators (Government of Gibraltar n.d. b), helped by the practice that "the Gibraltar Government is very selective in its criteria and only considers licensing blue chip entities with a proven track record in gaming" (Ernst & Young 2016: 14). Indeed, the gambling and betting activities sub-industry in 2016 accounted for 3,494 jobs of 4,711 jobs in the "other services" category (Statistics Office HM Government of Gibraltar 2016a).

In terms of dynamics, the hotel and restaurants industry exhibited the strongest employment growth from 2015 to 2016 (11.3 percent), while employment in the construction services sector contracted by 9.4 percent. The other sectors lay in between, with most service sectors growing somewhere between one and six percent. Within the "other services" category, the gambling and betting sub-industry grew by 9.0 percent (Statistics Office HM Government of Gibraltar 2016a).

## 2.2 Tourism in Gibraltar

As has become clear from the discussion above and notably from the importance of tourism-related sectors such as hotels and restaurants, transport, and retail, tourism is an important sector in Gibraltar's local economy. In 2016, 59 percent of all visitors to Gibraltar were Spanish nationals, 24 percent were British nationals, and 12 percent were nationals of other

EU member states (Statistics Office HM Government of Gibraltar 2016b: 1). Fletcher et al. (2015: 10) characterize the predominant pattern of tourism to Gibraltar in writing that “almost 78% of total visitor expenditure was made by excursionist visitors who came across the Spanish frontier” and “that just over 90% of excursionists by land were Spanish nationals and the primary purpose of their visit was shopping and they accounted for just over 90% of the total land excursionist expenditure” (Fletcher et al. 2015: 10). These findings are consistent with the high importance of the wholesale and retail trade industry<sup>3</sup> which is actually the largest service industry in terms of employment in Gibraltar (see 2.1). These excursionist flows from Spain to Gibraltar constitute another functional linkage within this cross-border region, underlined by the fact that 86 percent of excursionists crossing the frontier were Spanish nationals but only 3 percent of air departures were accounted for by Spanish nationals, suggesting that the overwhelming majority of Spanish visitors to Gibraltar came from regions located somewhat close to Gibraltar (Statistics Office HM Government of Gibraltar 2016b: 1).

Within the last two decades the number of visitor arrivals to Gibraltar has risen steadily until 2011 when it reached its peak at over 11.9 million. Since then the total number has decreased. In 2016, 10.1 million visitors arrived to Gibraltar. 94 percent of visitors arrived by land, four percent by sea, and two percent by land. However, the number of visitor arrivals by land includes frontier workers. Excluding frontier workers, an estimated 6.8 million visitors arrived to Gibraltar by land in 2016. While these numbers appear enormous for such a small area, it is worthwhile to distinguish excursionists from the region from tourists from outside the region, e.g. from the UK, less close parts of Spain, or other countries. Adding up visitor arrivals by air and sea in 2016 gives a number of 651,650 and has risen considerably in recent years. From 2015 to 2016, visitor arrivals by air increased by 22.8 percent and visitor arrivals by sea rose by 17.5 percent. The number of visitor arriving by air and staying in Gibraltar (i.e. excluding passengers in transit) is comparatively small but rising. In 2016, the number stood at 93,289, an increase of 17 percent compared to 2015 (Statistics Office HM Government of Gibraltar 2016b).

To attract tourists, Gibraltar promotes itself with its natural assets including the landscape and the distinctive rock of Gibraltar.<sup>4</sup> The Gibraltar Tourist Board highlights the blend of British traditions, history, hospitality, and the warm and friendly Mediterranean climate, and markets

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<sup>3</sup> Retail arguably benefits from the fact that there is no value-added tax in Gibraltar (Ernst & Young 2016: 91).

<sup>4</sup> Actually, the rock gave Gibraltar its name which is derived from the Arabic expression *Jebel Tareq* (Mountain of Tareq) (Government of Gibraltar n.d. a).

the destination with the slogan “Gibraltar – much more than you can imagine” (Gibraltar Tourist Board 2015b).

In recent years, Gibraltar has invested in tourism and leisure-related infrastructure by building a sports center, an ocean village comprising luxury residences, a marina, shops, restaurants and cafés, as well as a leisure center hosting bowling alleys, cinemas, an ice rink, a discotheque, restaurants and cafés. Apart from these more recently created attractions, Gibraltar boasts some small beaches, a Moorish castle, a nature reserve with opportunities for ape-watching, a historical cable car, botanical gardens, historical siege tunnels, a suspension bridge, the Gibraltar Museum, and a large array of shopping venues (Ernst & Young 2016: 16-17).

Cruise tourism has a considerable relevance for Gibraltar. In 2016, Gibraltar registered 224 calls with 425,845 passengers. These figures represent an increase of nearly 10 percent in calls and almost 18 percent in passengers compared to 2015. 86 percent of sea departures on cruise liners in 2016 were by British nationals, underlining the overwhelming importance of the British market for Gibraltar’s position as a port of call for cruise tourism but probably also an opportunity for diversification of target markets. Recently, cruise ships serving other target markets than the British one such as German TUI’s “Mein Schiff” vessels have paid calls to Gibraltar (Gibraltar Chronicle 2016a; 2017a; Statistics Office HM Government of Gibraltar 2016b: 1).

Apart from cruise tourists visiting Gibraltar during a Mediterranean cruise, Gibraltar is promoting its proximity to Morocco by advertising short ferry rides as an excursion for tourists staying in Gibraltar (Gibraltar Tourist Board 2015a). Vice versa, Gibraltar is exploring cooperation opportunities with the Moroccan tourism industry through roadshows to Marrakech, Casablanca and Tangier and a delegation visit by Moroccan travel agents, tour operators and journalists to Gibraltar (Gibraltar Chronicle 2016b; 2017b).

In terms of air traffic, Gibraltar’s airport is served by four airlines (British Airways, Easyjet, Monarch, and Royal Air Maroc), three of which are British and the remaining one Moroccan (Gibraltar International Airport n.d.). Routes to Gibraltar depart from London Heathrow, London Gatwick, London Luton, Birmingham, Bristol, Manchester, Casablanca, and Tangier. This means that direct flight connections to Gibraltar are available from the UK and Morocco only. Altogether, a total of 272,200 passengers arrived at Gibraltar International Airport in 2016 (Statistics Office HM Government of Gibraltar 2016c: 1).

### 2.3 Gibraltar's education sector

In September 2015, the University of Gibraltar was opened, making Gibraltar a university city (Ernst & Young 2016; 15-16; Garcia 2015a). After offering part-time courses (Garcia 2015b), the University announced that full-time programs were “expected to be offered as from 2016” (University of Gibraltar 2015). The University of Gibraltar offers the opportunity to pass courses of the University of London in Gibraltar, including degree programs in business-related tracks such as accounting, banking, management or finance whose degrees “are awarded by the University of London International Programmes, and directed by the London School of Economics and Political Science” (Garcia 2015b). The university currently hosts the following faculties and institutes (University of Gibraltar 2017):

- Faculty of Health Studies and Sports Science;
- Faculty of Business;
- Faculty for Tourism and Hospitality;
- Institute of Life and Earth Sciences;
- Institute for Gibraltar and Mediterranean Studies; and
- Institute of Professional Development and Continuing Education.

The academic scope offered by the university thus seems well in line with Gibraltar's economic fabric which is heavily based on services such as trade, financial services, tourism, or healthcare (see 2.1 and 2.2).

### 2.4 Gibraltar's economic structure: an appraisal

Gibraltar's local economy is characterized by a strong and growing dependence on services industries including notably business services (such as financial services and real estate), trade, construction, and recreation and entertainment (including hotels and restaurants as well as gambling and betting). Further, the local economy is characterized by a strong reliance on Spanish foreign workers, underlining the functional interrelationships within the cross-border region.

In terms of knowledge intensity, the virtual absence of manufacturing (with the exception of a small shipbuilding industry) and the dominance of those service industries which are usually considered as exhibiting low degrees of knowledge intensity (such as tourism and retail) suggest that Gibraltar is not a hub of knowledge-intensive industries. While industries such as financial services or real estate can include knowledge-intensive business services and while

the growing remote gambling industry is technology intensive, it is remarkable that the University of Gibraltar was established only in 2015 and so far offers mainly business-related subjects.

Consequently, it seems plausible to assume that Gibraltar will basically remain a trade and service hub and as such rely on its firm anchoring in its wider cross-border region. Maintaining and strengthening this position, however, will require a solution to the possible re-erection of a hard border after the end of the UK's EU membership. Higher transaction costs associated with a hard border between Gibraltar and Spain would arguably endanger the development of Gibraltar along its current trajectory of economic development.

After this brief and stylized characterization of Gibraltar's local economy, the next chapter turns to regional development strategies pursued in Gibraltar so far, first by shedding light on local development policies in Gibraltar itself and then by discussing cross-border regional development under the umbrella of EU cohesion policy.

### **3 Regional development in Gibraltar**

In this chapter, past and current projects and programs of the local government in Gibraltar as well as cross-border regional development initiatives in the context of EU cohesion policy will be presented concisely.

#### **3.1 Local development strategies**

The HM Government of Gibraltar is the main agent for local development with its Development Plan (Government of Gibraltar 2009) as its major strategic tool. The plan covers a host of aspects regarding the economic development of the territory and – under its thrust of promoting employment – is meant to contribute to the “aim (...) to continue to develop and diversify the economy through making optimum use of land, labour and capital resources, together with encouraging private sector involvement in new projects” (Government of Gibraltar 2009: 49).

Policy areas and sectors covered by the plan include the environment, housing (within the context of Gibraltar’s shortage of land), employment, tourism, retailing, transport, social and community affairs, leisure and recreation, and utilities and waste. The plan defines guidelines for allocating building permits according to land-use principles specified in the plan for each policy area covered. Yet, in some policy areas the plan defines strategic thrusts that exceed land-use and building permit procedures. For example, for the tourism sector, the plan classifies Gibraltar’s appeal as a tourist destination under the three categories of historical and cultural interest, shopping, and niche tourism including conferences, scuba diving, weddings, or sailing. Further, facilitating the expansion and diversification of Gibraltar’s accommodation offer is defined as a goal of tourism policy (Government of Gibraltar 2009).

In industrial sectors other than retail and tourism, the plan is less explicit, owing to its role as a strategic guide for land-use and building permit procedures. Apart from the plan’s nature, it is important to stress that the plan dates from 2009 and thus does not take into account newer developments such as the need for Gibraltar to develop a sustainable economic growth model for the impending post-“Brexit” reality.

#### **3.2 EU cohesion fund projects in Gibraltar**

Gibraltar is covered by EU cohesion policy and related structural funds. The current 2014-2020 “Operational Programme” (OP) for Gibraltar has a budget of EUR 11.4 million, EUR

5.7 million of which are funded by the European Regional Development Fund (ERDF). Areas covered include support for SMEs and entrepreneurship as well as renewable energy. The OP expects 70 enterprises to be supported and 200 new jobs to be created (European Commission 2014; 2017b).

ESF funding for Gibraltar puts its “focus on promoting sustainable and quality employment and supporting labour mobility together with investing in education, training and vocational training for skills and lifelong learning” (Ernst & Young 2016: 44).

As one goal of EU cohesion policy, European Territorial Co-operation under the Interreg brand is particularly important for Gibraltar and its cross-border region (Bundesinstitut für Bau-, Stadt und Raumforschung n.d.; European Commission 2015a).<sup>5</sup>

Between 2000 and 2006, Gibraltar participated in two Interreg cooperation programs with Morocco called GIBMANATUR and GIMACOL. The objective of the GIBMANATUR program was to strengthen cross-border cooperation between Great Britain and Morocco during the period from 2000 to 2006. Priorities included tourism, maritime transport, cultural heritage, research and technology, and the development of SMEs. GIMACOL was to promote areas of common interests in business-related and cultural activities. These areas of common interests included tourism, transport, telecommunication, trade, environment, culture and education (KEEP n.d. a; n.d. b).

Together with other regions from France, Portugal and Spain, Gibraltar participates in the transnational SUDOE (South West Europe) Interreg B program. The program is designed to assist the implementation of the EU’s “Europe 2020” strategy for smart and sustainable growth in South-Western Europe by funding transnational projects with ERDF funding. SUDOE’s thematic priorities include *inter alia* research and innovation, SME competitiveness, and environmental and climate-related priorities. Since both Gibraltar and its neighboring Spanish autonomous community Andalusia are eligible for SUDOE funding, projects of cross-border cooperation in Gibraltar and its neighbor region are feasible under this program (European Commission 2017a).

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<sup>5</sup> Interreg A is the funding line for cross-border cooperation while Interreg B covers cooperation of national, regional and local partners in transnational fields of cooperation and territorial integration. Interreg C deals with interregional cooperation projects (Bundesinstitut für Bau-, Stadt und Raumforschung n.d.; European Commission 2015a).

### 3.3 Strategic perspectives for Gibraltar's economic development

Gibraltar's local development policies consist of strategic thrusts towards promoting retail and tourism as defined in the Development Plan, as well as its regulatory policies towards the financial sector and the gambling industry. These policy priorities seem to be in line with Gibraltar's service-led economy. Being part of a functionally integrated cross-border region together with its Spanish neighbour localities (Fletcher et al. 2015; Government of Gibraltar 2017a; Government of Gibraltar 2017b), Gibraltar's growth model so far has arguably relied on its open borders for Spanish foreign workers and excursionists. EU cohesion policy has apparently been supportive of this orientation by allowing for funding cross-border cooperation between Gibraltar and the neighboring Spanish autonomous community of Andalusia. In the wake of the impending "Brexit" and the possibility of Gibraltar and Spain becoming once again<sup>6</sup> separated by a hard border, Gibraltar will have to find ways to keep its position in the wider cross-border region to keep its comparative strength notably in tourism and retail.

Diversifying Gibraltar's economy appears a worthwhile goal but possibilities are likely to be limited, due to the virtual absence of manufacturing industries (apart from shipbuilding) in Gibraltar and the small size of the territory and economy.<sup>7</sup> Continuing integration in the regional economy of the wider cross-border region appears a more promising avenue, thus strengthening the spatial division of labor within the region. Again, such a strategy, while allowing both Gibraltar and its neighbour localities to benefit from comparative advantages, will require finding ways to prevent the re-erection of a hard border.

For Gibraltar, focusing on its comparative advantage means keeping its strength in service industries, including notably retail and tourism. In the latter sector, continuing to target growing or high-value-added market niches such as cruise tourism, MICE (meetings, incentives, conventions and exhibitions) tourism, wedding tourism, sailing tourism, and cultural tourism might indeed further strengthen Gibraltar's position as a tourist destination and in turn strengthen its retail sector. Gibraltar might choose to promote itself even more strongly as a place of multiculturalism with a diverse history (Barford 2013). Such an orientation can offer a multitude of cooperation opportunities with neighboring Spanish localities, as will be explored in the next chapter.

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<sup>6</sup> The border between Spain and Gibraltar was closed between 1969 and 1982, with full reopening of the borders in 1985 (Government of Gibraltar n.d. a).

<sup>7</sup> Promoting small-scale renewable energy generation can be a niche for diversification in Gibraltar and is supported by ERDF funds (European Commission 2017b).

Another way to strengthen its service-based economy would be for Gibraltar to gradually increase the knowledge intensity of its service industries. The establishment of the University of Gibraltar can be seen as a step in this direction. In the scope of study tracks offered by the university, increasing knowledge intensity will be oriented more towards business and management knowledge than towards technical knowledge. Such an orientation does indeed appear well in line with the strength of Gibraltar's service industries such as financial services, health and social work, or education. Organizing business planning contests for graduates to develop new business models in service industries (including tourism) can support this process, even more so as it is in line with the goal of supporting entrepreneurship anchored in the ERDF OP.

Finally, promoting cultural and creative industries could be another promising avenue for local development in Gibraltar, particularly given its multicultural and diverse society (Barford 2013), its interesting history (Government of Gibraltar n.d. a), and its multicultural context within its cross-border region. Supporting the growth of cultural and creative industries as a driver of local development (Benner 2017a) would very well suit Gibraltar's focus on cultural and historical interest tourism (Government of Gibraltar 2009: 53). Opportunities for cross-border cooperation in this regard will be introduced in the following chapter.

All of the suggestions proposed above, while preliminary and in need of further and deepened analysis and assessment of their feasibility, can be classified as part of a "high road" local development strategy (Pike et al. 2017: 47) designed to increase mutually shared economic wellbeing in the context of continuing integration of Gibraltar within its wider cross-border region. While a "low-road" alternative strategy for Gibraltar is imaginable, based for example on tax competition and the attraction of offshore businesses through low regulatory requirements, we firmly believe that such an alternative strategy is not sustainable and will not secure the high standard of living Gibraltar currently enjoys in the long run. Seen from the perspective of the cross-border region as a whole, such an alternative, "low-road" path would certainly be damaging for the regional economy and endanger the advances achieved so far in cross-border regional integration which build on comparative advantages and complementarities within the spatial division of labor between the local economies of Gibraltar and its Spanish neighbour localities.

We therefore advocate a "high-road" strategy of local development for Gibraltar with continued and deepened integration into the wider cross-border regional economy as a central

strategic pillar. The next chapter further characterizes how such a “high-road” strategy of cross-border regional integration could look like, based on a concise characterization of the economic fabric of Gibraltar’s Spanish neighbor region, and suggests some preliminary ideas for cooperation within the cross-border region to promote further integration, as well as some thoughts on how to politically facilitate the cooperation needed.

## 4 Looking ahead: Possibilities for cross-border cooperation

The previous chapters have taken a look at the local economy and at approaches of local development in Gibraltar. The present chapter extends the analysis to the wider cross-border region by assessing the economic structure of Gibraltar's Spanish neighbor region before identifying possibilities for cooperation and sketching ways to cooperate after the UK's withdrawal from the EU.

### 4.1 Gibraltar's Spanish neighbor region

Gibraltar borders the Spanish autonomous community of Andalusia which had 8.4 million inhabitants in 2016. At 28.9 percent (2016), Andalusia has one of the highest unemployment rates in Spain, suggesting the status as a lagging, peripheral region (Eurostat n.d.).

The Andalusian economy is dominated by sectors such as construction and tourism but policy attention has recently turned towards more knowledge-intensive sectors (Marchese and Potter 2010). Tourism continues to be one of the main pillars of the autonomous community's economy. In fact, Andalusia is among the autonomous communities attracting the highest shares of tourists visiting Spain (OECD 2010: 217).

Within the autonomous community of Andalusia, Gibraltar's neighboring localities are located in the province of Cádiz and more specifically in the Campo de Gibraltar district. Campo de Gibraltar includes the cities of Algeciras and La Línea de la Concepción located along the Bay of Gibraltar/Algeciras. In fact, La Línea da la Concepción is situated adjacent to the border to Gibraltar.

Algeciras is located on the other side of the bay adjacent to Gibraltar and has a population of around 114.000. The city's local economy is marked by its port which offers ferry services to Morocco and notably to Tangier, a growing tourism sector, petrochemical industry, fishing, and agricultural production (Encyclopædia Britannica 2017a).

The University of Cádiz maintains a campus in Algeciras offering degree programs in the following areas (Universidad de Cádiz n.d.):

- Business administration and management as well as labor relations and human resources;
- Prevention of labor risks;
- Port management and logistics;

- Law;
- Nursing;
- Early childhood education and primary education;
- Civil engineering (including for roads, channels and ports) and industrial technologies engineering; and
- Renewable energy and energy efficiency.

La Línea de la Concepción (or in short, La Línea) is located just north of the border to Gibraltar and has a population of almost 64.000 people. The city's local economy is in particular marked by processing of food sold in Gibraltar (Encyclopædia Britannica 2017b).

As has become clear in Chapter 2, Gibraltar and its neighboring Campo de Gibraltar region with its major localities of Algeciras and La Línea de la Concepción constitute a functionally integrated cross-border region (Fletcher et al. 2015). It is estimated that in 2013, around 24 percent of permanent jobs in the Campo area are directly linked to Gibraltar's economy, a large part of Gibraltar's GDP was created by frontier workers, and 24.4 percent of Campo de Gibraltar's estimated GDP was linked to Gibraltar's economy, a significant increase from 18.5 percent in 2009 (Fletcher et al. 2015). These facts elucidate the functional interrelationship between Gibraltar and its Spanish neighbor region which together constitute a functionally integrated cross-border region in the sense explained in Chapter 1.

#### 4.2 Gibraltar and its Spanish neighbor region: possibilities for further cooperation

As of now, on the macro level there is a visible spatial division of labor within the cross-border region of Gibraltar and Campo de Gibraltar: While Gibraltar has a fairly strong and prosperous service-based economy, its Spanish neighbor region offers a significant part of the workforce needed to maintain Gibraltar's current level of economic activity. This spatial division of labor, evident in functional interrelationships such as the flow of frontier workers from Campo de Gibraltar commuting to work in Gibraltar each day, calls for finding a political solution to keep the border between Spain and Gibraltar permeable.

Apart from the fundamental question of border permeability which is critical for Gibraltar's prosperity and for Campo de Gibraltar's and particularly La Línea's labor market, there are some possibilities for additional cooperation in the future which may increase economic well-being in the cross-border region as a whole:

- More intense cooperation in tourism could help both Gibraltar and Campo de Gibraltar diversify their touristic products. Combining Gibraltar's cultural sights and entertainment and shopping offers with possibilities of ecological tourism, wine tourism or culinary tourism in Andalusia could benefit the cross-border region as a whole. Joint marketing efforts for Gibraltar and the Spanish side of the Bay of Gibraltar/Algeciras could be used to promote the comprehensive offer of the cross-border region. Gibraltar could benefit from tourism to the neighboring parts of Andalusia through its airport and cruise port. Notably in cruise tourism, calls to Gibraltar could be enriched with specialized ecological, wine or culinary tours to neighboring parts of Andalusia with Gibraltar as a base. Developing such a kind of cooperative offers can enable Gibraltar to position itself as port of departure or arrival of cruises and thus for extended stays of cruise tourists in Gibraltar before or after the cruise.
- By extension, cooperation within the Gibraltar/Campo de Gibraltar cross-border region might even include the adjacent Spanish exclave of Ceuta through ferry rides and related offers, for instance, for cruise tourists extending their stays in Gibraltar or Campo de Gibraltar prior to or after the cruise. Including the Moroccan city of Tangier in such a comprehensive offer might be considered.
- The newly established University of Gibraltar offers opportunities to raise the knowledge intensity of the economy of the cross-border region as a whole. While the University of Gibraltar specializes in general or specific tracks of business administration and management, the Algeciras campus of the University of Cádiz offers (apart from business administration, nursing and education-related tracks) technical degrees such as civil engineering, industrial technologies engineering, and renewable energy and energy efficiency. There is an obvious potential for collaboration here, e.g. by organizing joint entrepreneurship programs or business-planning contests addressing both students with a management background and students with a technical or engineering background. Doing so would well fit in SUDOGE's thematic priorities such as research and innovation, SME competitiveness, and environmental and climate protection.
- Promoting cultural and creative industries holds a considerable potential for both Gibraltar and its neighboring localities, in particular Algeciras. For example,

organizing Spanish-English multilingual cross-border business planning contests for cultural and creative business models or events targeting entrepreneurs in cultural and creative industries should be considered. Given the rich cultural heritage and history of Gibraltar and its neighboring region as well as its multiculturalism and multilingualism, establishing a joint Gibraltarian/Spanish multicultural festival could give cultural and creative industries throughout the cross-border region a possibility to present themselves, contribute to a climate of cross-border multicultural dynamism, and place Gibraltar and its neighboring Spanish region on the international cultural map. This, in turn, could have beneficial effects for tourism both in Gibraltar and in Campo de Gibraltar. Such a festival could well complement cross-border cooperation on tourism as was suggested above.

The proposals introduced above should be understood only as preliminary ideas whose feasibility will have to be studied in more detail. Apart from the feasibility of each single proposal, there is the larger question of how to organize cooperation in a post-“Brexit” reality. The next section discusses this question.

#### 4.3 Post-“Brexit” perspectives for the Gibraltar cross-border region

In the first place, some kind of a political solution will have to be found to keep the Gibraltar-Spanish border permeable for foreign workers, excursionists and international tourists in order not to confront the strong functional economic interrelationships prevalent in the Gibraltar/Campo de Gibraltar cross-border region with considerably higher or even prohibitive transaction costs.

Apart from this political issue so vital for Gibraltar and its Spanish neighbor region, the cooperation possibilities sketched in Section 4.2 will need day-to-day cooperation between local and regional agents from the private and public sectors on each side. This day-to-day cross-border cooperation could be facilitated in a joint strategy design, prioritization and action planning process, for example following the smart specialization approach (Benner et al. 2016; Foray et al. 2009; Foray et al. 2012) for the cross-border region. Such a smart specialization strategy does not need to be confined to regions hosting “high-tech” industries but can equally focus on the linkages of service industries such as tourism with the regional knowledge base (Benner 2017b). Given the potential for complementarities between universities on both sides and their study tracks targeted to a large degree to the service industries present in the region such as specialized business administration studies for

financial services or port management, developing a smart specialization strategy for the cross-border region which looks at the common regional knowledge base, strong economic sectors, and possible complementarities and fields of convergence (e.g. Benner et al. 2016) could be a valuable exercise to come up with a shared strategic understanding and action plan for regional development in the cross-border region as a whole.

Cooperation schemes such as those proposed in Section 4.2 can be supported by EU cohesion policy through the ERDF and ESF. However, support by EU structural funds would depend on whether Gibraltar as a British territory would have access to EU structural funds once outside of the EU. As the example of Norway demonstrates, participation in EU cohesion policy by a country which is not an EU member is principally possible. Notably when it comes to Interreg programs, Norwegian regions have played an active role in cooperation schemes supported by EU structural funds (European Commission 2015b).

While in the case of Norway participation in EU cohesion policy takes place under the umbrella of the country's membership in the European Economic Area (EEA), the special case of the Gibraltar/Campo de Gibraltar cross-border region should be treated in a similar manner, maybe exceptionally, even if the UK were not to join the EEA.<sup>8</sup>

In any case, enabling cross-border cooperation and deeper economic integration of Gibraltar into its wider cross-border region is a small (compared to the large complex of political questions related to the UK leaving the EU and negotiating future relations) but from the perspective of regional development important issue that should be set on the agenda of negotiators on behalf of the EU, UK, and Spain.

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<sup>8</sup> A similar solution might be considered for Northern Ireland.

## 5 Conclusions

The present study has briefly analyzed Gibraltar's local economy and embedded the insights gained from this analysis into the wider context of the Gibraltar/Campo de Gibraltar regional economy. Due to the methodological constraints inherent to desk research involving a document analysis and an analysis of secondary data, the insights gained from this study including the ideas for local development and regional cooperation should be regarded as preliminary only. In the process of elaborating a local development strategy of Gibraltar and an integrated regional development strategy for the cross-border region (which might, for example, take the form of a smart specialization strategy), much deeper analysis involving, *inter alia*, extensive qualitative interviews with a host of stakeholders in the regional economy will be necessary. Further, recommendations for local development and ideas for cooperation in regional development will have to be assessed in terms of their feasibility and cost efficiency. In any case, further research is needed for the task at hand, and given that the economic development of Gibraltar is confronted with high uncertainty due to the current "Brexit" process, certainly worthwhile.

What the present study has demonstrated is that the cross-border region of Gibraltar and Campo de Gibraltar is functionally highly integrated, and that a process of turning back supranational integration such as the UK leaving the EU confronts functionally integrated cross-border regions such as Gibraltar/Campo de Gibraltar with serious challenges. We believe it is important that such a de-integration process do not put into question the advances achieved in cross-border regional development that are so apparent in the case of Gibraltar by re-erecting hard, less permeable national borders or settling on "low-road" strategies of economic development. We believe a "high-road" strategy of pursuing avenues towards shared prosperity through cross-border regional integration and cooperation in regional development is in the long run the more sustainable and sensible path.

In this sense, the major conclusion of this study is a call to policymakers and negotiators concerned with the process of the UK leaving the EU and negotiating further EU-UK relations to find workable solutions for a functionally integrated cross-border region so that Gibraltar and its Spanish neighbor region can continue their path towards cross-border regional integration for mutual benefit.

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