

INTELLECTUAL OUTPUT 4

Case Study IO4- Macroeconomic

Closure of Morocco's commercial border with Melilla: Trade in Melilla is drowning

Miguel Ángel Pérez Castro, PhD. in Economics
Department of Applied Economy, Universidad of Granada, Spain
pcastro@ugr.es

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1. Summary

This case study analyses the changing scenario that is taking place in cross-border relations between Melilla and northern Morocco, with the implementation of the closure of commercial customs by the Kingdom of Morocco. Morocco's sovereign decision to close its commercial border with Melilla and direct all commercial and container traffic to the nearby port of Beni Ensar or Aït Nsar is weakening the city's economy.

The closure could be the event for trade to stop being the main economic activity of the private sector of the city. The EU-Morocco Euro-Mediterranean Agreement, the US-Morocco Free Trade Agreement and the development of the commercial port of Nador and its corresponding free zone are making the trade of Melilla lose competitiveness.

The most important recommendation made in this case study is that Spain should denounce the EU or the World Trade Organization for the illegality of such closure.

2. Introduction

Historically, there have always been commercial relations between Melilla and Morocco. However, the Spanish character of Melilla has never been recognized (Garrido, 2014 and Mir, 1978). However, since the decision taken by the Moroccan administration, there are conflicting positions both from

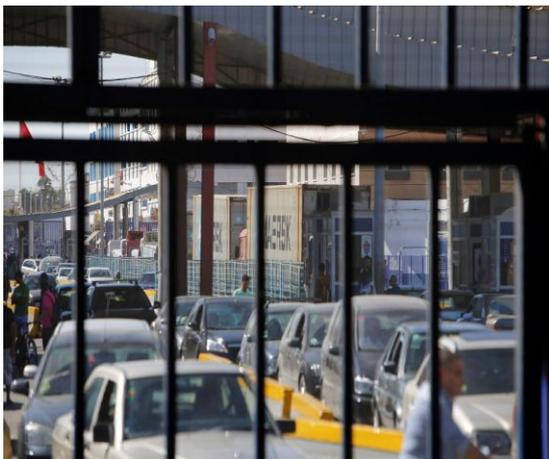
businessmen and public authorities in both territories, some concerned about the closure and others recommending its application.

The rules of international trade regulate the freedom of operations and not the closure of borders, but Morocco has considered the latter because it believes it is necessary to divert supplies from Melilla to its port in Nador. Moreover, it does so in order to continue with its development policies: strengthening its trade, improving the management of its ports with the collaboration of the mayor of Rotterdam (of Berber origin), expanding and inaugurating a new port, contracting maritime lines for the transport of containers.

Statistical data on imports into Melilla, both from the Autonomous City's collection office, the State Tax Administration Agency (AEAT) and the Melilla port authority, show that since the closure mentioned above, its economy is suffering significant measured falls in tonnes of goods, in the economic valuation of imports and in the collection of the indirect local tax typical of autonomous cities that taxes consumption and imports (IPSI) and that it is one of the main sources of income for the Autonomous Administrative Organism (Pérez-Castro, 2007)

Relations could be affected both socially and economically on both sides of the border, but we will focus on the import and export trade aspect and its relationship with the financing of the Autonomous City, through its local indirect.

Generally, border movements of goods are not performed by recording customs documents. They carried out through the so-called atypical trade whose procedure of passage of goods be able to apply according to the regulations of the travellers' regime.



Source: El Faro de Melilla



Source: europapress

The analysis of this case study is done in two phases: The first phase focuses on the legislative aspects, the economic framework and the historical, socio-economic relations that have existed between Melilla and northern Morocco; and the second phase focuses on the analysis and variations in the volumes of import and export trade between these territories.

The importance that trade has in any border city has been thoroughly studied (Anderson, 2003, Jim and Patrick, 2001 and Stoddard 1991); also that the creation of obstacles has never been convenient since they affect the exchange of products generated by comparative advantages, or the reasons for labour mobility caused by the difference of existing incomes, among other reasons.

Exist numerous international regulations that supports and promotes the commercial relations between Spain and Morocco (and that by way of example we can say that the fourth round of the free-trade agreement (FTA) between Morocco and the EU, 2014, placed 2017 year as the gradual integration of markets in several areas, including competition, customs, and trade facilitation policies and trade defence). However, Morocco has always stated that it does not recognize the Spanishness of the territories that make up the autonomous cities located in North Africa, and therefore this country does not want to recognize any agreement about these territories.

Hence, the circular issued in early August 2018 by the Moroccan government does not mention the closure of the border with Melilla but diverts import operations to its port of Beni Enzar. Therefore, Spain must file a claim for closure to the EU or the World Trade Organization for the illegality of such closure.

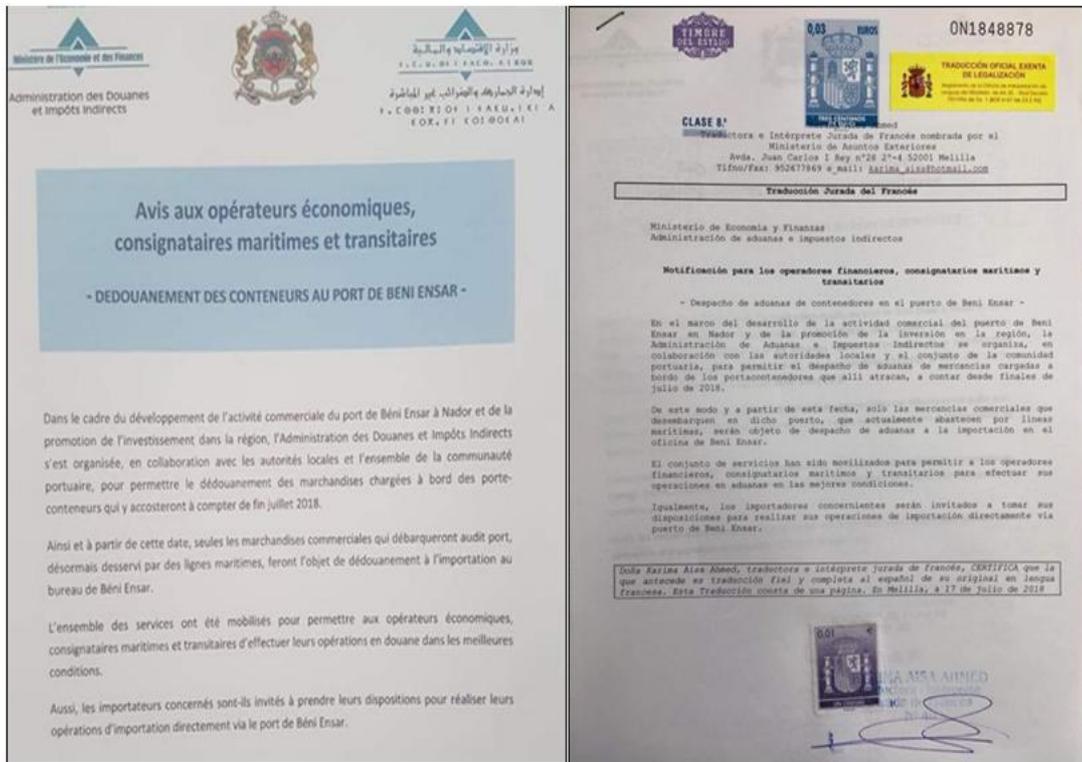
Notice to economic operators, forwarding agents and shipping agents:

"In the context of the development of the commercial activity of the port of Beni Enzar in Nador and the promotion of investment in the region, the Customs and Excise Administration was organized, in collaboration with the local authorities and the entire port community, to allow the customs clearance of goods loaded on the container ships that will dock there since the end of July 2018.

Therefore, and from that date, only commercial goods that will land at the port, now served by the shipping lines, will be authorized for import at the office in Beni Enzar.

All services have been mobilised to enable economic operators, transport agents and freight forwarders to carry out their customs operations under the best possible conditions.

Besides, interested importers are invited to make their arrangements to carry out their import operations directly through the Port of Beni Enzar".



Sources: circular issued in early August 2018 by the Moroccan government

3. Aims

The purpose of the study and the specific questions that must be answered are follows:

- For over a year now, Morocco decided to close its commercial borders with Melilla in order to fight smuggling and tax evasion?
- Is the reason for the closure to help carry out the development policies of northern Morocco?

4. Method

A case study is a study of a particular situation. The question formation of the study determines the methodology that is the best one for the empirical part of the study in question.

In order to give an opinion supported by quantitative data on how the closing of the border, which is the objective of the study, maybe affecting it, the

appropriate methodology for data collection and processing techniques (sources) should be used to carry out the analysis.

The type of study carried out is exploratory and begins with the search for information and statistical data since we consider that although there are antecedents in the literature researched, these are not updated. It also is descriptive, where a series of concepts or variables are selected, and each one of them is measured independently from the others, with the purpose, precisely, of describing them (trade indicators and variables independently without trying to establish at this stage the form of relationship between them).

Finally, it is explanatory since it tries to find out the reasons why this phenomenon occurs, and why two or more variables are related.

5. Results

The empirical analysis provides us with sufficient information on the economic impact that the closure is having on Melilla's economy.

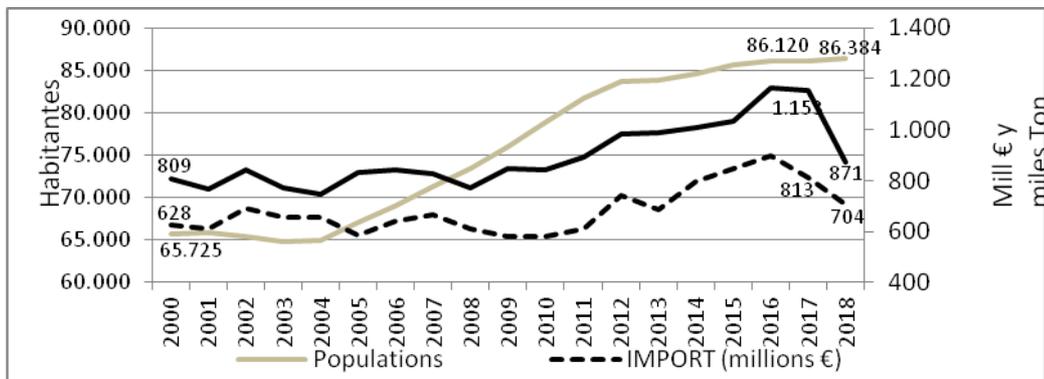
Imports of goods through the port of Melilla (tonnes), in the period 2000-2018, has only grown by 8%. This data is despite even though the population and GDP have grown by 31% and 70%, respectively. In terms of their economic valuation, imports increased by only 12% in current Euros, but the tax on these imports (IPSI) fell by 1% (table1 and figure 1).

Table 1. Evolution goods ports Melilla, GDP and population (2000-2018)

| MELILLA | 2000 | 2007 | 2012 | 2018 | % 00-18 | % 00-07 | % 07-12 | % 12-18 | % 17-18 |
|--------------------------------------|------------|------------|------------|------------|------------|-----------|------------|-------------|-------------|
| Liquid bulks (thousands tons) | 86 | 68 | 72 | 76 | -11% | -21% | 5% | 6% | -3% |
| Dry bulks (thousands tons) | 64 | 52 | 21 | 5 | -92% | -19% | -60% | -75% | -29% |
| General cargo (thousands tons) | 633 | 683 | 862 | 785 | 24% | 8% | 26% | -9% | -26% |
| Total import (thousands tons) | 809 | 829 | 983 | 871 | 8% | 3% | 19% | -11% | -24% |
| Population (thousands) | 66 | 71 | 84 | 86 | 31% | 8% | 17% | 3% | 0% |
| GDP (€ million currents prices) | 922 | 1.361 | 1.378 | 1.564 | 70% | 48% | 1% | 14% | 2% |
| GDP per capita (thousands €) | 14 | 19 | 16 | 18 | 29% | 36% | -14% | 10% | 2% |
| IPSI import (million) | 42 | 45 | 44 | 42 | -1% | 7% | -0% | -7% | -18% |
| Import (million €) | 628 | 664 | 741 | 704 | 12% | 6% | 12% | -5% | -13% |

Sources: Port Authority, State Port and National Institute of Statistics

Figure 1: Evolution of goods, imports and population in Melilla (2000-2018)



Sources: Port Authority, State Port and National Institute of Statistics

If we do not focus on the last two years, 2017 and 2018, the influence is evident as imports in Melilla have fallen by 24%, from 1.1 to 0.8 million tonnes, its economic valuation from 813 to 704 million euros, and lower IPSI revenue by 18%, maintaining the population and GDP. On the other hand, in Nador, it has increased by 40% in tonnes. Melilla's documented exports to Morocco, which we recall are not those corresponding to atypical trade, have decreased by 45% in 2018 compared to 2017 (table 2).

Table 2. Import volumes for the ports of Melilla and Nador (2017-2018)

| MELILLA | 2017 | 2018 | % 17-18 |
|--|--------------|--------------|----------------|
| Liquid bulks (thousands tonnes) | 79 | 76 | -3,1% |
| Dry bulks (thousands tonnes) | 7 | 5 | -28,8% |
| General cargo (thousands tonnes) | 1.061 | 785 | -26,1% |
| Total imports (thousands tonnes) | 1.153 | 871 | -24,4% |
| Population (thousands) | 85 | 85 | 0,3% |
| GDP (thousands euros) | 1.527 | 1.564 | 2,4% |
| Import (thousands euros) | 813 | 704 | -13% |
| IPSI (thousands euros) | 51 | 42 | -18% |
| Export documented ¹ (million €) | 50 | 27 | -45% |
| NADOR | 2017 | 2018 | % 17-18 |
| Liquid bulks (thousands tonnes) | 504 | 713 | 109% |
| Dry bulks (thousands tonnes) | 1.024 | 1.448 | 23% |
| General cargo (thousands tonnes) | 144 | 204 | 20% |
| Total imports (thousands tonnes) | 1.672 | 2.365 | 40% |

Sources: State Port, National Institute of Statistics and Haut Commissariat Morocco

¹ Documented exports are minimal volumes compared to the volume of undocumented exports through the atypical trade (travellers' regime)

Taking data from the last five months of 2017 and 2018 (August-December), port movements in Melilla have decreased by 25% (table 3).

Table 3. Import volumes for Melilla Aug-Dec 17 and Aug-Dec 18

| MELILLA | Aug-Dec 2017 | Aug-Dec 2018 | % |
|--------------------------------|--------------|--------------|---------------|
| Liquid bulks (thousands tons) | 33 | 32 | -2,5% |
| Dry bulks (thousands tons) | 1 | 1 | 0,1% |
| General cargo (thousands tons) | 415 | 312 | -24,8% |
| Total imports (thousands tons) | 700 | 523 | -25,3% |

Sources: State Port

The latest data published, those corresponding to the first quarter of 2019 compared to 2018, show that Nador increased its imports by 6%, compared to a fall of 3% in Melilla.

Table 4. Quarterly data before and after closing (2018 and 2019)

| NADOR | 1 Qtr 2018 | 1 Qtr 2019 | % 18/19 |
|--------------------------------|------------|------------|--------------|
| Total imports (thousands tons) | 591 | 628 | 6,2% |
| MELILLA | 1 Qtr 2018 | 1 Qtr 2019 | % 18/19 |
| Liquid bulks (thousands tons) | 18 | 18 | -0,8% |
| Dry bulks (thousands tons) | 2 | 3 | 14,6% |
| General cargo (thousands tons) | 194 | 188 | -3,1% |
| Total imports (thousands tons) | 216 | 210 | -2,7% |

Sources: Spain State Port and Port of Morocco

6. Discussion

Historically there have always been essential reasons, from the origins of the city, to demonstrate the existence of commercial exchanges between Melilla and its north-African environment.

The border has been recognised by the various Alawi authorities since the 13th century.

For such an affirmation, we highlight three significant facts. The first is that in November 1861, the trade treaty between Ceuta and Melilla with the Moroccan territory signed, allowing citizens from both sides of the border to carry out commercial transactions. The second, the Agreement for the establishment of a land customs office between Melilla and Morocco was signed (1866) and therefore allowing the passage of goods. And third, by the formal Agreement

reached in 1956, shortly after the decolonisation of Morocco, which, in response to the request of this nation to continue exporting the minerals of the Rif through the port of Melilla, was accepted by Spain and thus remained open to mutual satisfaction for 60 years (Bravo and Fernandez, 2005).

Morocco has always expressed its non-recognition of the Spanish nature of the territories of the autonomous cities of North Africa (Bataller and Jordan, 1995) and therefore does not wish to recognize any agreement, despite the existence of numerous international regulations that support and encourage trade relations between Spain and Morocco².

Hence, in the circular issued in early August 2018, it never mentions the closure of the border with Melilla but diverts import operations to its port of Beni Enzar. Therefore, we believe that Spain must complain to the EU or the World Trade Organization about the illegality of this closure.

The closure of the commercial customs could be the event for trade to stop being the main economic activity of the private sector of the city. The EU-Morocco Euro-Mediterranean Agreement, the US-Morocco Free Trade Agreement, and the development of the commercial port of Nador and its corresponding free zone are making the trade of Melilla lose competitiveness.

At the same time, they are also contributing to the decrease in financial autonomy due to lower revenues from the most important sources of local income, such as the import tax (IPSI) and the Supplementary Hydrocarbons and Tobacco Taxes.

7. Conclusions and Recommendations

There are enough journalistic references that show the concern about the closure of the border. This references not only of the business community and the Spanish authorities, but also of the businessmen and traders of the province of Nador, who consider this closure necessary to promote the economic development of the Eastern region of Morocco.

Although only the closure is influencing the documented exports, we have to stress that these are minimal in relation to the total volume of goods destined for Morocco (carried out through the so-called atypical trade), but we believe that

² By way of example, we can say that the fourth round of the free trade agreement (ALECA) between Morocco and the EU, in 2014, set the year 2017 as the gradual integration of markets in various aspects, including competition policy, customs and trade facilitation, trade defence)

this will be the next step to be taken by the authorities of the neighbouring country.

There is a decrease in the volume of goods imported into Melilla due to increasing competition from the attached port of Nador, causing a loss of financial autonomy for lower tax collection of local indirect taxes (IPSI) and complementary taxes.

Development plans of Morocco which justify the closure of the border are mainly to help boost and develop their economy, as set out in: El Agreement of Industrial Association in Nador RAWAJ; Cooperation agreement between the mayors of Nador and Rotterdam in the field of consultancy and port cooperation (2016); Agreement between Med Shipping Company Morocco (MSC) and the Council of the Eastern Region and y basically the inauguration and port improvement projects in Nador province the opening and improvement of the ports of Nador (Nador Med West and Beni Enzar) and other infrastructure.

The most important recommendation that is made in this case study is that Spain has to complain to the EU or the World Trade Organization for the illegality of such closure.

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