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Morocco: the challenge of becoming an emerging economy

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By Coface Group MENA economist



Moroccan economy remains resilient during the last world economic crisis and was able to resist to Arab springs. In an increasingly unstable International environment, Morocco remains stable. Implementing an original development model, the country succeed the challenge to accelerate its potential growth when the

major big emerging markets slow down. The bet that morocco attempts to meet is not only to develop its traditional sectors, but also diversify its activity towards products and services with higher added value. The country intends to attract more foreign direct investment (FDI), becoming a crossroads between the European Union and the African continent, and enhance

its economic relations with Sub-Saharan countries. These developments suggest that Morocco could in the near future, regarding Colombia or Peru, join the group of the “new emerging countries”. However, this optimism should not hide some persistent fragilities, in particular substantial twin deficits and public debt from several years.



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MOROCCO: THE CHALLENGE OF BECOMING AN EMERGING ECONOMY



“Morocco proved resilient during the recent world economic crisis. It could relatively easily join the group of the “new emerging countries” and consolidate its place as the leading African country.”

SOFIA TOZY

Economist based
in Paris

SELTEM IYIGUN

Economist based
in Istanbul

INTRODUCTION

The Moroccan economy gone against the world economic trend since the Lehman crisis: whereas the world economy seems since then to have been durably weaker and more volatile, Morocco’s growth, by contrast, has proved resilient by remaining close to pre-crisis levels despite this unfavourable international context (global credit crisis, sovereign debt crisis in the Eurozone, slowdown in the big emerging markets...). How can we explain this paradox? Like the other Maghreb countries, Morocco has had to rethink its development model: initially driven by the public sector, Morocco chose to stimulate growth through domestic demand by supporting consumption and investment. Thanks to this new approach, the country has experienced a period of sustained growth since 2002. Though this strength of domestic demand has progressively led to a deterioration in the current account balance, it has also enabled the Moroccan economy to show itself particularly resistant to the shocks caused by the 2009 economic crisis and, to a lesser degree, by the wave of Arab springs. However, the difficult international and regional contexts have highlighted the Moroccan economy’s structural weaknesses. Among the most marked of these is the lack of export diversification, which, combined with high energy dependence, has led to a negative contribution to growth by foreign trade from 2004.

In this context, some initiatives were taken between 2008 and 2009. Adopting a sectoral approach, these measures took the form of an overall strategic plan subdivided into the Emergence Plan for the industrial sector, the Green Morocco Plan for agriculture, the National Energy Strategy, the Plan Azur for tourism, the Digital Morocco strategy, the Halieuitis Plan for fishing and Vision 2015 for crafts. Through its different plans Morocco is pursuing its strategy of economic diversification and opening up not only to the North, but also to the South.

The country seems to be pursuing a strategy which consists both in consolidating its traditional sectors (agriculture, mining), combined diversifying its industrial fabric, and adopting a more aggressive policy tapping new markets for which the country has developed expertise.

First (chapter 1), we put Morocco’s economic situation into perspective relative to that of its neighbours and, more generally to that of the “new emerging countries”.

Next, we shall dwell on the most recent developments of the primary sector, which remains one of the keystones of the Moroccan economy and the main cause of its volatility. Moroccan agriculture has been changing since the 2000s and this trend has become stronger since the adoption

of the Green Morocco Plan. But in addition to agricultural production itself, there is a whole agribusiness sector emerging, which could be one of the country’s new growth drivers.

The third focus will be on the new emerging sectors. The country is counting on the development of new high value-added technology sectors such as the automotive and aeronautical sectors. Taking advantage of its proximity to the European continent and its main markets, Morocco has employed a whole range of measures in order to attract new players. The emergence of these new activity sectors poses certain questions, among them that of their development potential. Will Morocco, like Turkey, be able to turn these high value-added sectors into drivers of growth?

Finally we shall touch on the Moroccan sectors which export their expertise. The country has recently begun opening up to the south and wants to position itself as a hub between Europe and Africa. On the initiative of the public sector and certain big private operators, Morocco is multiplying the links between its economy and that of the African continent, on the one hand, by increasing trade and, on the other, by promoting foreign direct investment in its southern neighbours.

1 MOROCCO IS DOING BETTER THAN ITS NEIGHBOURS BUT LESS WELL THAN THE “NEW EMERGING COUNTRIES”.

What is a “new emerging country”?

To describe a country as a future emerging country one must first define what one considers as “emerging”. In a May 2014 study, Coface¹ identified a group of countries likely to be “future emerging countries”, according to four criteria:

- I/ A high long-term average growth rate (more than 4%) accelerating compared with that of the pre-crisis decade;
- II/ A diversified economy, of which raw materials exports did not exceed 40% and remained resilient to external shocks;
- III/ An economy with a savings rate above 10% of GDP and therefore able to finance investments favouring

capital accumulation and/or productivity gains
IV/ A favourable or good-quality business environment.

This study made it possible to identify ten countries as “new” emerging markets: Colombia, and Peru in Latin America, Indonesia, the Philippines, Sri Lanka and Bangladesh in Asia and Kenya, Tanzania, Zambia and Ethiopia in Africa. These countries meet all the criteria concerning the level and evolution of growth, but they differ in respect of the business environment. Colombia, Indonesia, Peru, the Philippines and Sri Lanka have a climate more conducive to economic development compared with the other five countries.

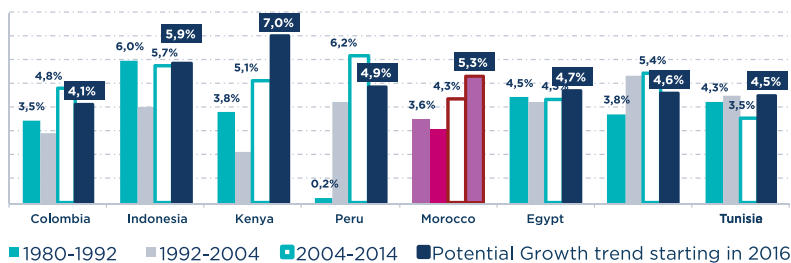
Morocco a future emerging country?

Morocco meets all these criteria except that of accelerating potential growth. According to the calculations of these authors, this is nevertheless stable. To understand this, a comparison with some of the “new emerging countries” as well as the non-oil-exporting countries of the Middle East and North Africa seems pertinent. Our analysis covers three aspects: growth, GDP growth per capita and growth volatility.

First, Morocco’s average growth rate is below that of the sample between 1992 and 2016 (chart 1). Although it was sustained over the three periods observed, Moroccan growth was less rapid than that of the future emerging countries. Accordingly, though the countries of the sample started from comparable levels, a gap opened up between 1992 and 2004. Morocco’s average growth rate nevertheless remained higher than that of the North African and Middle Eastern countries, except for Jordan.

Growth rates over the three periods studied

Chart 1



Source: IMF, COFACE

A short overview of Morocco’s economic history helps us understand the reasons for this differential. After a period of strong growth sustained by state action which finished at the end of the eighties, Morocco experienced an economic slowdown and an accumulation of macro-economic imbalances brought about by the excessive level of the public debt². This deep economic crisis led the country in 1983 to begin a programme of economic stabilisation and adjustment with the support of the International Monetary Fund and the World Bank. The execution of this programme was accompanied by a set of economic and institutional reforms aimed at a gradual disengagement of the state and a strengthening of the role of the private sector. The period from 1992 to 2000 corresponds to this period of budgetary rigour.

The 2000s marked the completion of these structural reforms and coincided with a return to growth at a level above 4%. This growth, supported by domestic demand, was favoured by a number of measures. Wage rises and cuts in personal taxation boosted household purchasing power which rose on average by 4.1% between 2004 and 2013. The liberalisation of

¹ Briant, Laura., Marcilly, Julien. Which emerging countries will take over from the BRICS? Coface Panorama COUNTRY RISK - Spring 2014

² Like other developing countries, Morocco became heavily indebted from the eighties. Moreover, the oil shock, falling interest rates and repeated periods of drought greatly weakened the country’s economy. In this context, the Mexican crisis of 1982, which sounded the death knell of a decade of overindebtedness, served to reveal these big imbalances. Moroccan foreign debt approached 77% of GDP in 1981 and grew to reach 102% in 1986. Data from Mohamed Wargui, «Les réformes financières au Maroc: sequences et agendas», The Maghreb Year, V | 2009, 485-513

the banking market and the spread of credit continued to support the government's policy of strengthening domestic demand. Growth, which averaged 4% over the period 2004-8, lost only 0.2 points between 2008 and 2014.

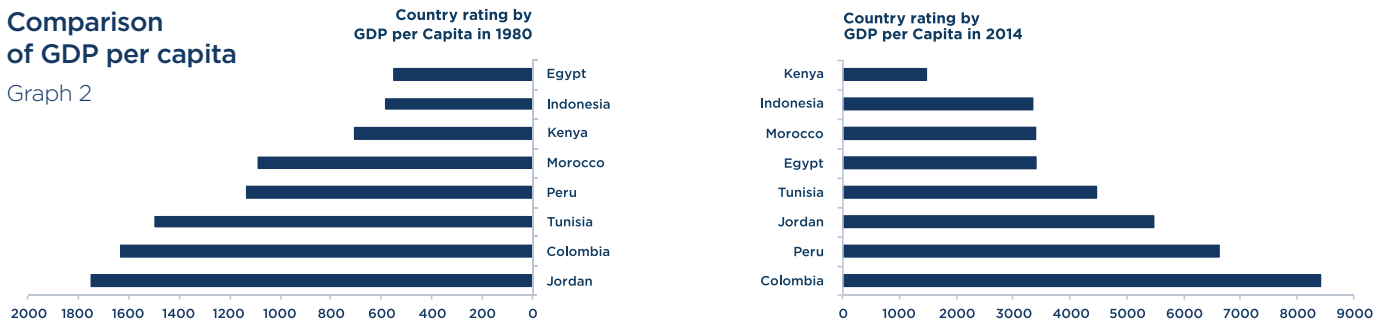
Unsurprisingly, per capita GDP growth figures also show contrasting patterns between the "new emerging countries" and Morocco. The per capita GDP of the new emerging countries" is growing more

quickly than that of Morocco. Their GDP grew by 4.7% on average between 1980 and 2014 against "only" 3% for that of Morocco (and 4.4% for the countries of the Middle East and North Africa). Their population, though it has doubled, has grown less quickly than that of the Arab countries, multiplying by 1.95 against 2.14 for the Arab countries. The case most like that of Morocco remains undoubtedly that of Peru. In 1980, the per capita wealth was relatively similar at respectively \$1080 and

\$1136. Demographic growth has followed the same pattern. Both countries had a population of 18 million in 1980 against 30 million today. The Peruvian growth rate at the beginning of the period was distinctly below that of Morocco, but then the gap widened because of the big upsurge in growth experienced by Peru experienced from the nineties as a result of the liberalisation of its mining sector. This economic take-off was followed by more sustained and stable growth.

Comparison of GDP per capita

Graph 2



Source: IMF, COFACE

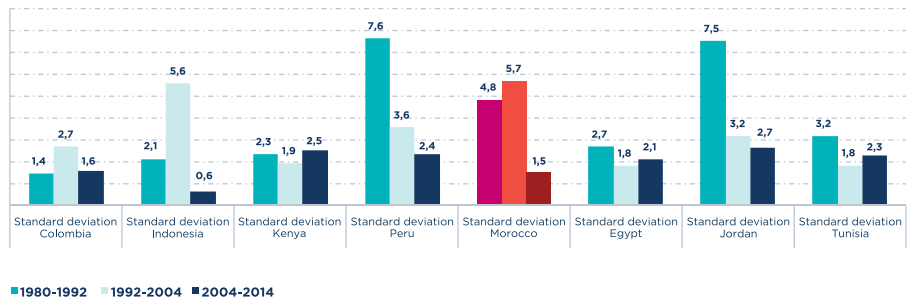
Relatively low growth volatility

But though Moroccan growth is historically less strong than that of other more dynamic emerging countries, it also seems less volatile.

We have compared the growth volatility for the countries in the sample starting by calculating the standard deviations over three periods. The countries observed seem to converge towards an increasingly stable path of growth. On the face of it Colombia, Indonesia and Morocco follow the same path, with a period of high volatility between 1992 and 2004, characterised by significant standard deviations, with these then declining significantly. Some other countries have seen a more gradual decline in their volatility, like Peru and Jordan. For Morocco the period of declining volatility coincides with the first results of the economic consolidation policies. This relative stabilisation of growth results from the combined effect of decline in dependence on weather conditions for agricultural production and from the increased importance of household consumption, the growth of which is by its nature is less volatile than that of the other components of GDP (investment, foreign trade).

Analysis of standard deviations of growth rates by country and period

Graph 3



Source: IMF, COFACE

The development model chosen by Morocco seems therefore to be bearing fruit. The consolidation of the traditional sectors and the diversification of non-agricultural GDP seem to favour relatively sustained and less volatile growth. If we consider the near-term growth potential,³ we observe acceleration in Moroccan growth from 2016 approaching that of the new emerging countries. This stronger and less volatile growth seems to result from a new economic dynamic. The country has in fact adopted a series of measures which

will ultimately make it possible to increase the economic contribution of higher value-added sectors. With the consolidation of non-agricultural GDP around high value-added sectors and the strengthening of agricultural GDP, Morocco could begin a new growth trajectory characterised by greater robustness. However, this growth, which remains mainly endogenous, is likely to be limited by the lack of human capital and the little technical progress made by the country (see part 5).

³In order to make a comparison by country, we have taken as an indicator of potential growth an average of the IMF's growth forecasts for 2016 to 2010.

2 FROM TRADITIONAL AGRICULTURE TO AGRIBUSINESS

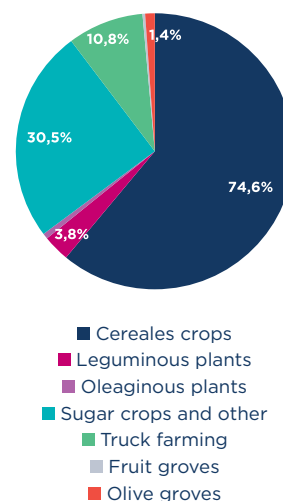
Among the main employment providers,⁴ the agricultural sector contributed 1% to GDP in 2013 but it has for long been both a strength and a weakness of the Moroccan economy: a strength because it has been a real lever of growth. According to a 2006⁵ HCP study, an increase in agricultural growth (AGDP) has a disproportionate effect on Moroccan growth; a weakness because of its high volatility, with an average growth rate falling from 10.6% between 1985 and 1991 to 0.27%⁶ between 1991 and 2004. During this period, agricultural volatility (deviations of output relative to its average) became eight times greater than that observed in the Middle East and North African region.

An agriculture dependent on the climate

In order to deal with these imbalances, in 2008 Morocco launched a set of measures under the name of the Green Morocco Plan with the aim of fundamentally reforming the agricultural sector. This new direction of agricultural policy extends the structural transformation of this sector by giving it a new dynamic. Morocco is shifting from a strategy of developing the rural environment to a strategy of expanding the supply of agricultural products. This policy of controlling supply involves a vertical integration of the production chain, from input production to the sale of the raw or processed product. Apart from the agricultural sector, it is the phosphates, agrifood and transport sectors which should benefit from the increase in supply. In order to enhance the synergy effects, Morocco has begun a set of initiatives along with the Green Morocco Plan aimed at boosting the related sectors. Among others, a substantial investment programme by the Moroccan office chérifien des phosphates aims at increasing input production, updating and improving the transport and distribution sector through the 2015 logistics programme contract and supporting the agrifood industry.

Breakdown of crop production by type

Chart 5

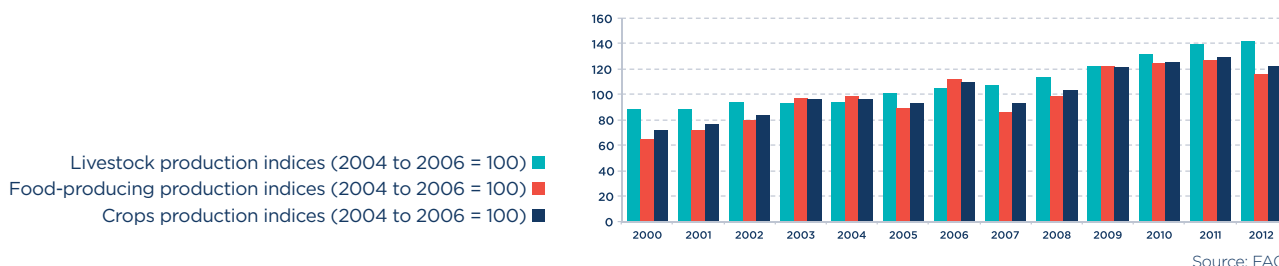


Source: Ministry of Agriculture

The Moroccan agricultural sector is characterised by two types of agriculture: a productive agriculture which is concentrated in the irrigated areas and which occupies 20% of the agricultural land used and a traditional and livestock agriculture which employs the majority of the agricultural working population and which occupies 80% of the agricultural land used. Agriculture is, moreover concentrated around certain types of crops the contribution of which to AGDP remains limited.

Evolution of production indices by agricultural sector

Graph 6



⁴ The proportion of the economically active agricultural population was equal to 39.4% of total employment in 2013 against 39.7% for services and 20.8% for industry. HCP data.

⁵ HCP, "Structure of the Moroccan economy", 2006

⁶ HCP, «Morocco Economic Outlook 2030: Agriculture 2030, what future for Morocco?»

Cereal cultivation represented nearly 64% of the agricultural land used in 2010 while its contribution to AGDP did not exceed 19%; vegetable crops, on the other hand, which accounted for only 3% of the agricultural land used contributes 13% to AGDP.⁷ The predominance of cereal cultivation, with its very high water consumption in the agricultural land usage, results in a dependency relation between agricultural production and the level of water resources. This vulnerability to the vagaries of climate and the sector's lack of diversification explain the significant volatility of production. This results in substantial variations in agricultural growth from one year to another (less than 9% in 2012 and more than 19% in 2013).⁸

The livestock sector is the second component of agricultural GDP. It contributes up to 30% of GDP and employs nearly half of the agricultural working population. It is divided into two segments: poultry and cattle rearing. The contributions of beef, mutton and goat meat amount to 67% of the total turnover of the livestock segment. The produce of this sector is mainly intended for meat consumption and milk production. Sheep and cattle farming has long been a traditional activity. The latter underwent big changes in the nineteen-seventies. The different plans intended to upgrade the dairy industry have bolstered activity; today there are more than 25 million head of livestock divided between beef cattle (2.8 million), sheep (17.1 million) goats (5.1 million) and camels (0.18 million).⁹ As with crop cultivation, this sector is also dependent on rainfall. Climatic conditions determine the quality of the seasonal migration routes and influence the production of fodder. Poultry production has also undergone significant expansion since the nineteen-seventies and has been progressively industrialised. Today the industrial poultry segment has more than 5,000 poultry rearing firms, which meet 90% of the market's white meat needs. The rearing of egg-laying hens makes it possible to meet 100% of domestic egg demand. Despite these performances, the sector remains very dependent on the import of inputs (corn, chicks, additives).

Faced with these weaknesses, the public authorities face a two-fold challenge. On the one hand, the challenge is to strengthen productive agriculture, while improving the integration of traditional agriculture within the value chain. On the other hand, it is to increase the irrigated surfaces in order to increase agricultural production. By limiting water stress and encouraging agricultural diversification, Morocco could benefit from better use of the land and the optimisation of its yields. The Green Morocco Plan is thus built around two pillars aimed at its two objectives.

By mobilising public investment through the fund for agriculture, the country has invested more than 31 billion dirham (nearly 4% of GDP) over five years in promoting the high value-added agricultural segments. Aggregating businesses to enable small-scale farms to access export markets and modernising the agricultural production fabric through mechanisation and investment in new irrigation techniques should increase yields. At the same time, in the framework of the second pillar, the Green Morocco Plan has put in place a policy promoting better land use by encouraging farmers to convert to higher value-added crops. The two objectives, however, remain constrained by the weakness of water resources. Despite substantial reserves generated by the policy of using big dams for storage, water supply remains below what is needed for productive agriculture. The emphasis has therefore been put on developing crops and techniques requiring low water consumption spreading drip irrigation techniques through the national water saving policy.

The results of the “Green Morocco Plan”

Since it was adopted in 2008, the Green Morocco plan seems to have reached cruising speed and is beginning to show significant results. Over the last five years, the agricultural growth rate has reached an average of 9.3%. Agricultural productivity per worker has been growing at fast pace since 2008. Productivity per hectare has also grown thanks to an increase in irrigated plots. With regard to the diversification of agricultural produce, the record over the last five years is relatively positive. It has enabled the revitalisation of new agricultural sectors such as citrus and oil-seed cultivation for export. It has reduced the concentration of the number of farms, which has fallen from 200,000 to 1.7 million since 2000. Finally it has favoured an increase in areas cultivated by 11% over the same period. The vegetable and fruit sectors have grown strongly since 2008 with +77.7% for citrus production and +105% from 2008 to 2014 for oil seed production. The tomato sector, the top export segment has also been strengthened. Morocco is the world's fourth biggest fresh tomato exporter. Boosted by the measures under the Green Morocco Plan (support for inputs, farm equipment, water saving irrigation, seed selection), investments in the sectors have helped drive up production. The sector's productivity also grew between 2008 and 2013 with yields rising by 37.5%¹⁰ (i.e. from 60.6 tonnes/hectare for 2008-2009 to nearly 83.3 tonnes/hectare in 2012-13).

⁷ Ministry of agriculture, «L'agriculture en chiffre» (agriculture in figures) 2010

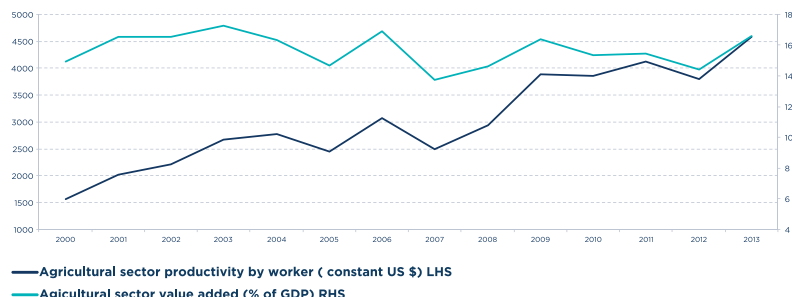
⁸ DEPF, «Rapport économique et financier 2015» (Economic and financial report 2015)

⁹ Ministry of Agriculture data

¹⁰ DEPF, «Performances et compétitivité des exportations des filières phares du secteur agroalimentaire marocain» 2014 (Performances and competitiveness of key segments of the Moroccan agrifood sector)

Evolution of agricultural productivity

Graph 7



Source: FAO

However, this upstream improvement in agricultural sector productivity is limited by the lack of efficiency. The failure to add value to the products and the difficulties of distribution both at the domestic and the export level limits expansion. The across-the-board reforms undertaken by the public authorities in order to assist the development of agriculture should help. The Green Morocco plan provides, in particular, for a restructuring of the wholesale markets and a redeployment of the export strategy. To this is added a programme for updating the logistics apparatus initiated in 2010, which should cut transport costs and improve the management and traceability of stocks. This sector is itself booming and thanks to the efforts agreed, the country moved up 44 places between 2007 and 2012 in the Logistics Performance Index listing (LPI).¹¹ Nevertheless, the sector is facing a certain number of constraints which limit the emergence of an efficient logistics sector. One of the obstacles remains the lack of specialised platforms, which results in the disorganisation of the circulation of the flows of goods.

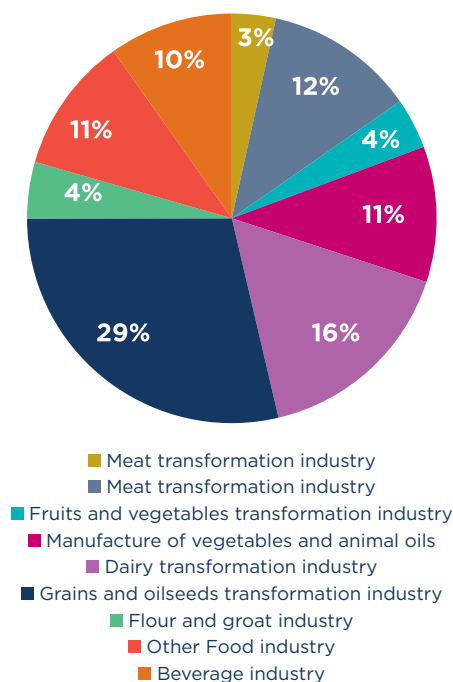
One of the brakes on the sector's development undoubtedly remains the failure to add value at the end of the chain: the development of the agrifood industry has been tardy and accounts for only 5% of the added value of Moroccan GDP against 15% for agriculture. This sector has considerable growth potential and the agrifood industry is expanding rapidly. For twenty years the progressive transformation of consumption patterns has led to an ever-increasing demand for processed goods. The demand for agrifood products has been growing at an average rate of 4% since 2004, i.e. at the same rate as household demand for agricultural products.

For some years this sector has been becoming increasingly attractive and has drawn a growing number of foreign direct investments. Foreign investors are mainly buying businesses already existing on the market, such as the purchase of the central milk plant by Danone, of Brasseries de Maroc by Castel or the

takeover of Lesieur Morocco by the Lesieur France group. Agripole was set up precisely to attract a bigger share of Greenfield in order to increase investment in the sector. The country also plans to give particular attention to the export-oriented processing business by prioritising vertical chains for which the production of inputs is done locally. Traditionally represented by the processing of seafood, where some big players like UNIMER have emerged, it needs to come active in other sectors - canned vegetables and the production of drinks have considerable potential. Finally, some businesses specialise in products which seem less competitive, such as the meat processing sector with the Koutoubya holding group or Dari mills in the production of semolina. Finally too we note the growing number of niche sectors such as the production of argan oil and Barbary fig seed oil, which has revitalised isolated and landlocked regions (The Souss and the Sahara). But production volumes remain limited at this stage.

Breakdown of food industry by segment in 2012

Chart 8



Source: Manar Database, Coface

¹¹ World Bank, «Connecting to Compete Trade Logistics in the Global Economy» 2012

To conclude, Moroccan agriculture has long suffered from high volatility of its output, which is very dependent on rainfall conditions. It has, however great potential, which could make it a real lever of growth, if it could increase its productivity and limit its volatility. The measures taken in the framework of the agricultural development policy since 2008 seek to do this. The major public investment programme will make it possible to increase the number of irrigated areas and the productivity per hectare. The policy of crop conversion will also make it possible to exploit sectors with higher added value. Two limits seem to emerge from our reflections. The first concerns the profitability of the large investments made in a context of substantial indebtedness and budgetary rigour with regard to the results obtained. The Green Morocco plan has required the mobilisation of considerable resources. Will the expected effects be worth the efforts agreed? The second could take the form of longer-term risk. The promised reforms are not only transforming Moroccan agriculture, but also the agricultural working population. The long-term effects of such a process are difficult to foresee, but one may question the ability of such an initiative to fix the agricultural population in the countryside, in a context where the country is investing massively in highly labour-intensive vegetable crops.

3 NEW EXPORT SECTORS

Since the 2000s Morocco has adopted a strategy of diversification by relying on the development of high value-added sectors. By profiting from its proximity to the European continent and its main markets, it has employed a set of measures in order to attract new players from high-potential sectors, such as the automotive and aeronautical sectors. The port of Tangiers and the free trade zone round it, or the Nouaceur industrial zone on the Casablanca periphery come into this category. The emergence of these new sectors poses several questions regarding the Moroccan growth model, the development potential and the challenge of these sectors.

Automotive and aeronautics: symbols of on-going economic diversification

Morocco has put the automotive and aeronautical industry at the heart of its diversification strategy. It has banked on these high value-added sectors as a lever of economic development. The integration

of these sectors into its industrial fabric will, moreover, enable Morocco to gain expertise in a high-tech industry. The automotive market has seen a remarkable boom in recent years. Over the first ten months of 2014, 100,128 new vehicles were sold according to the figures the Moroccan Association of Vehicle Importers (AIVAM), - a slight fall of 0.45% compared with the same period in 2013. But vehicle production had previously reached a level of 167,452¹² units in 2013, a rise of 54% compared with the previous year. The added value achieved by the automotive industry from re-exports amounted to DH 10.5 billion in 2011, and DH 9.8 billion¹³ in 2012.¹⁴

The consumers of the North African region, who have limited purchasing power, are very sensitive to the selling price of vehicles. At the same time, the poor quality of the road infrastructures and difficult traffic conditions push consumers to favour more robust cars. In Morocco, the market is therefore mainly dominated by B-segment vehicles, the market share of which is close to 30%. The gap between consumers' purchasing power and their preferences for more up-market vehicles continues to stimulate the resale market. Moreover, the low cost of vehicle maintenance on the informal market continues to contribute to the buoyancy of the second-hand market. But with the rise in wages we can expect a gradual rise in new vehicle sales.

The automotive sector is organised around two segments: vehicle assembly and equipment supplies. Affected by the 2008-2009 financial crisis, the motor industry has, in recent years, recorded growing export performance. According to the foreign trade figures, the country increased its market share in the world automotive trade by 0.23% in 2012. In 2014, the automotive sector became the country's biggest export sector, posting a rise of 26.5%, or the equivalent of DH 8.4 billion (USD 0.9 billion). This performance puts it above phosphates. In total, automotive sector exports rose from DH 31.7 billion in 2013 to DH 40 billion in 2014. This rise was mainly the result of growth in the automotive construction segment, which recorded a rise of 52% during this period. The number of vehicles exported per month thus reached nearly 16,000 vehicles against 12,000 in 2013.¹⁵

The ramp-up of the Renault factory in Tangiers explains the strong growth in automotive construction since 2012. The main vehicles produced in Renault's Moroccan plant are the Dacia Lodgy, Dokker and Sandero models. The brand exports 90% of this production. The Renault factory is situated within the Tanger Automotive City business zone, located in the Tanger Med free trade zone in the south of Tangiers. This free trade zone is part of a bigger integrated industrial platform project included in the Emergence

¹² Data published by Business Monitor International (BMI)

¹³ Automotive Industry report by Morocco's Department for Statistics and External Trade

¹⁴ Algeria, Egypt and Morocco clearly dominate the automotive market in North Africa. These three countries will alone represent 90% of turnover in the region's automotive industry in 2020, to the detriment of Tunisia and Libya, which will continue to be more marginal markets.

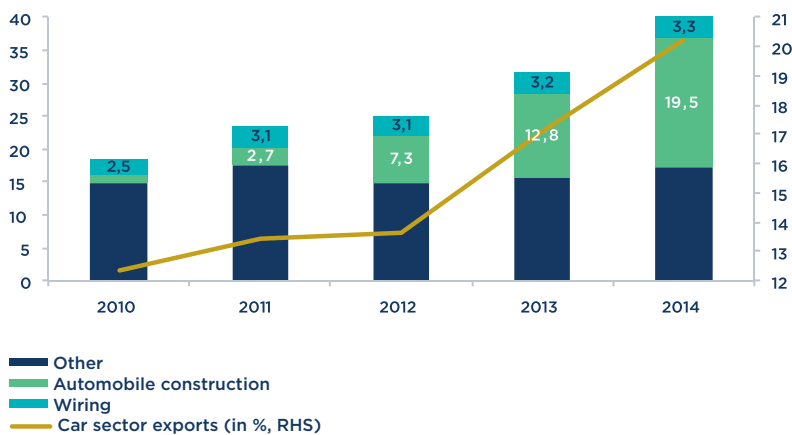
¹⁵ Data from the Moroccan Office des Changes (Exchange Office)

Plan for industry, a plan aimed at promoting economic development based on an industrial diversification strategy. Through a multi-sectoral strategy, the objective of this initiative is to achieve synergies by integrating on each platform all the components facilitating the establishment of an industrial fabric. Tanger Automotive City therefore combines a wide range of automotive activities such as supplying components, logistics and the manufacture and transshipment of vehicles.

With a quota of more than 180,000 vehicles produced in Tangiers in 2014, plus about 60,000 vehicles produced by Somaca¹⁶ in Casablanca, nearly 240,000 vehicles were manufactured in Morocco during the year. Thus, vehicle exports alone accounted for 9.8% of the country's total exports in 2014 - an increase of 6.9% compared with 2013.

Moroccan automotive exports (millions of dirhams)

Chart 8



Source: Moroccan Foreign exchange bureau

Cable manufacture also represents an important activity in the Moroccan automotive sector. The cabling industry achieved a remarkable performance in 2014, with exports up by 9.7% on the previous year. So, for the first time, the automotive industry's exports surpassed those of the phosphates industry, which had hitherto been the country's main export sector. The aeronautical industry was also distinguished by exports. The sector's exports of goods and services reached DH 7.4 billion in 2014 - an increase of 3.2% compared with 2013. After having invested nearly 200 million dollars in Morocco, the Canadian Bombardier group began production of the first spare parts in 2013. In 2009, the Moroccan aeronautical

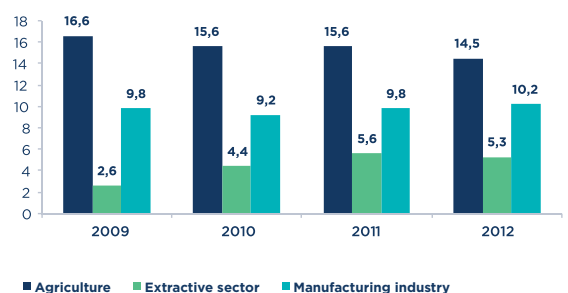
sector made a turnover of about EUR 750 million,¹⁷ spread across about a hundred businesses, with an annual growth rate of approximately 25% over the last five years. The firms are located in Casablanca, Tangiers and Rabat.

The development of the sector is also included in the Emergence Plan. Morocco has followed the same strategy as that adopted for the automotive industry, which has made it possible for an industrial fabric to form around the aeronautics related businesses. Today a broad range of activities can be carried out in the country, from assembling the structural components to cabling and from aeronautical bodywork to engine repair.

Overall, exports from these new business areas, as well as from electronics and pharmaceuticals, accounted for 28.8% of total exports in 2014 against 21.5% in 2012. This new contribution of the industrial sectors to exports marks a change in the country's growth model, which has long been based on the traditional agriculture and mining sectors. The Moroccan economy seems to be shifting towards higher value-added industries. These are contributing to improving technology, growing human capital and growth in the country's technical expertise. The strategy of sector diversification through the automotive and aeronautical industries seems to be bearing fruit. The share of the agricultural sector in total added value is on a downward trend, while that of manufacturing is slightly up.

Share of sectors in total added value in Morocco (%)

Chart 9



Source: BMI

¹⁶ SOMACA (Société Marocaine de Construction Automobile) is a car company created by the Moroccan government 80% owned by the Renault group.

¹⁷ According to GIMAS data: Moroccan Aerospace Industries Association

Becoming a regional automotive hub

Morocco has the ambition of becoming a regional hub for the automotive and aeronautical sectors. In view of this, it has put in place a whole set of measures aimed at increasing Morocco's attractiveness to professionals in the sector looking to invest in low-cost countries. Among these measures is the "Morocco Offer" aimed at new investors, which includes tax exemptions and state aid. Indeed, businesses in the sector newly established in Morocco benefit from a 5-year exemption from corporation tax, from state aid which can amount to 10% of the total investment, as well as the setting up of training programmes suited to the needs of the businesses.

The country is seeking to graft a local industrial fabric around big international businesses and develop profitable partnerships with SMEs. Since the automotive and aeronautical sectors have reached a fairly important level of development, the concept of these ecosystems aims rather at greater integration in order to be able to cope with strong competition by ensuring the quality of the manufactured products. In the automotive sector four priority ecosystems have been identified with this aim: automobile cabling, vehicle interiors and seats, metal stamping and batteries.

The country's comparative advantage in terms of labour costs is among the main determinants of Morocco's attractiveness. According to official data, labour costs in Morocco are 50% lower than those of Southern Europe. Morocco has other advantages likely to attract automotive and aeronautical businesses. First, the country benefits from an advantageous geographical situation at the crossroads of maritime trade routes and its proximity to the European market. Second, Morocco has invested in a substantial infrastructure modernisation programme (national electrification programme, densification of the road network) and in the upgrading of its northern regions.

The modernisation of the Port of Tanger and the creation of the Tanger-Med zone are part of this. The Tanger-Med Port, strategically located not far from the strait, has, since its construction, become an important logistics centre. By 2017, its capacity is expected to rise to 8 million containers. Tanger-Med is particularly important for Renault, which has invested more than

a billion euros in it, an investment on an unprecedented scale in Morocco's automotive industry. Morocco's sustained economic growth and political stability also contribute to the country's attractiveness. Economic growth averaged 4.6% between 2006 and 2013, while inflation remained below 2%. In addition to advantages in terms of production, Morocco is also a potential market for construction companies. Population growth, the high proportion of young people and the increase in per capita income could increase domestic demand for the automotive sector.

Morocco's comparative advantages, as well as the authorities' policy of providing incentives to increase the country's attractiveness have enabled major manufacturers to establish themselves. Besides Renault, these include Denso, Sumitomo, Lear, Leoni, and Yazaki. As for aeronautics, companies such as Bombardier, the Safran group and Zodiac Aerospace have production units in Morocco. At the end of 2014, the Moroccan authorities concluded thirteen agreements with leading businesses in the automotive sector, such as Delphi, Antolin and Bontaz in order to strengthen the productive fabric. Total financing for these 13 projects is estimated at 1.4 billion dirhams (USD 150 million). The government expects 5000 jobs to be created thanks to these investments. According to Morocco's High Commission for Planning, the automotive sector, creates 1.5 indirect jobs for every 1 new direct job. The aeronautics sector, which accounts for approximately 4% of the country's exports, employs 10,000 highly skilled workers according to the Gimás figures.

The increase in world demand for automotive products and the sector's profound transformations (just-in-time production, diversification of supply, personalisation) have led to reorganisation of automotive production on a world scale. The manufacturers have therefore favoured low-cost destinations for their installations, which, however, remain close to the end markets. To this is added a strategy of relocating production activities and sub-contracting around the same unit. This new arrangement has enabled countries like Morocco, Turkey or Poland to seize opportunities and substantially grow their foreign direct investments in the automotive sector.

Morocco has thus recorded a strong increase in foreign direct investments in the sector. Between 2010 and 2012, foreign direct investments climbed to DH 3.6 bil-

lion (USD 0.37 billion) against only DH 913 million in 2010. This increase was mainly due to foreign direct investments made in the automotive construction industry. In this segment, foreign direct investments increased 16-fold between 2010 and 2013, to reach DH 3.2 billion. Likewise, FDIs in the automotive sector represented 43.9% of FDIs in the manufacturing sector in 2012 against 19.2% in 2010, according to the report of Office des changes. The automotive sector's export revenues are generated mainly from these foreign direct investments. Compared with competitor countries such as Tunisia and Egypt, the increase in foreign direct investment has enabled Morocco to increase its market share at the international level. This reached 0.23% in 2012, exceeding that of Tunisia (0.15%) and Egypt (0.08%). In 2007, Morocco's market share was 0.1%.

Total investment in the aeronautical sector has reached EUR 350 million. The state actively supports deployment in the aeronautical sector through the National Pact for Industrial Emergence (NPiE). This programme, which is based on a mutual commitment by public and private stakeholders, amounts to DH 12.4 billion spread across priority investment sectors, among them offshoring, electronics, automotives and aeronautics. The NPiE thus aims to assist the Moroccan industrial fabric over the period 2010-2015 by favouring the emergence of new business areas which are more integrated into the global value chain. Along with the financial support given to investors, the government is planning the creation of an industrial zone dedicated to certain sectors. The Midparc industrial platform, near the Mohammed V airport at Nouaceur comes within the framework of this strategy for the creation of a cluster. Moreover, the improvement of logistics infrastructures dedicated to the industrial sectors provides the aeronautical and automotive businesses with rapid transfer to their place of destination.

Two future challenges: moving upmarket and diversification of export countries

In order for this model of diversification to result in continuous development, the country has, along with the development of these new business areas, begun a strategy of moving up market. The aeronautical businesses have gradually begun to

produce higher added value products. This move up market has made it possible to attract new players to the sector. In 2014, the country signed two investment agreements worth EUR 45 million, one of which was with Aerolia, a subsidiary of the European Airbus aircraft manufacturer and the other with the aeronautical equipment manufacturer Alcoa, which has 200 assembly plants in the world. Aerolia, thus aims to develop a second hub of growth and competitiveness by establishing itself in Morocco, where it wants to deploy its local and integrated supply chain model. The USD 200 million investments by the Canadian Bombardier group for a production unit at Nouaceur also contribute to this move up market. In 2020, the production site is expected to employ up to 850 workers. The factory will be dedicated to the production of mechanical components and certain subassemblies for the manufacture of CRJ wings. This move from the production of metal parts to the production of structural components for certain airbus models is evidence of the more up-market positioning of products made in Morocco.

Manufacturers, who began by producing small components in Morocco have subsequently gone on to produce components requiring more skill and training and to assemble big units. Enlarging the range of products manufactured in the country and attracting new investments form a pillar of Morocco's strategy, which will enable it eventually to increase the size of this industry. The supply of human capital is a sine qua non for achieving this transition. In order to do this, the country has invested in skills training to meet the needs of these new business areas by setting up technical training institutes (IMA, Moroccan Aerospace Institute).

For their part, international firms are also transferring their practice and expertise and contributing to employee training through a mentoring system. This two-pronged approach should, in the medium term, increase the technical ability of the employees in Morocco. The training of the labour force is also one of the main elements of the programme for positioning the automotive sector more up-market. In order to do this the Moroccan government has set up specialised training institutes. Two such institutes are situated in the Tanger free trade zone and the Atlantic Free Zone to support equipment manufacturers, while the third is near Casablanca. In May 2014, the Office de la Formation Pro-

fessionnelle et de la Promotion du Travail (OFPPT) signed a partnership agreement with the Fiat Group Automobiles Morocco (FGAM) concerning the setting up of a framework for the exchange of expertise for adapting and developing initial professional training in the automotive sector and ensuring it matches the needs of the labour market.

The development of the chain of sub-contractors (supply chain) also has an important place in the strategy of moving upmarket in the aeronautical sector. Indeed, the existence of competitive sub-contractors permits better upstream and downstream integration of the production process. This is why, in 2012, the SPACE association (Supply Chain Progress towards Aeronautical Community Excellence) announced its intention to support its members based in Morocco for the development of a supply chain in line with European standards. Thanks to the development of the supply chain and diversification of the industrial fabric, the country is now capable of producing a large range of products from cabling to composite materials, including surface finishing, engine maintenance etc.

The establishment of Renault in Morocco illustrates this strategy particularly well. By producing higher added value goods, Renault has also contributed to the arrival of new inputs in the Moroccan production chain. In November 2014, PSA Peugeot Citroen confirmed that Altran (the consultancy company) was going to create a research and development centre for PSA in Morocco. All these developments are part of Morocco's industrial strategy for 2014-2020. This plan, which replaces the NPPIE, represents about two billion euros and aims to increase the industry's share of GDP from 14% to 23% by 2020.

This means strengthening and energising the industrial fabric so that it will be better able to compete internationally. Morocco is therefore seeking to create "ecosystems", of local subcontractors in high value-added areas. These include, for example, plastics, cabling, stamping, electronics and engineering. To ensure the development of the industrial sector, Morocco is also seeking to ensure its supply of raw materials, while strengthening its infrastructures and its maintenance functions.

These developments are occurring as part of Morocco's industrial strategy for 2014-2020. This plan, which replaces the

NPPIE, costing nearly two billion euros, aims to increase the share of industry in the country's GDP from 14% to 23% over the period 2015-2020.

Diversification of the commercial partners remains a major challenge for the country. Indeed, 90% of the automotive sector's commercial transactions originating in Morocco are directed to the countries of the European Union. In 2012 France and Spain accounted for about 70% of flows from Morocco. Moreover, diversification of export destinations is still a challenge for the country. According to the department of statistics, more than 90% of the automotive sector's commercial transactions in Morocco are concluded with countries of the European Union. In 2012, France and Spain accounted for nearly 70% of the country's trade, according to Morocco's statistics department.

The problem is the same in the aeronautical sector since flows from Morocco are also concentrated on the European Union and, in particular France (which accounts for about 85% of exports). As for aeronautical exports, they are also destined for the European market, particularly France, benefitting from Morocco's geographic and cultural proximity with these countries. Indeed, 85% of Morocco's aeronautical exports go to France and only 10% to the United States. This dependence on the European economy weakens the country's development prospects, particularly in a context where the Eurozone is struggling to return to growth.

This concentration could adversely affect the country's export performance during the slowdown in European growth. In 2012, Morocco's market share in the automotive sector reached 0.23%, thus exceeding that of Tunisia (0.15%) and Egypt (0.08%). However, Morocco is still far behind Turkey, which accounts for 1.4% of market share. On the other hand, Morocco had a 0.23% share of world automotive exports in 2012. The country was first in the MENA region, ahead of Tunisia (0.15%) and Egypt (0.08%), but in the Mediterranean region it is still far behind Turkey (1.4%). This shows that the country's competitive capacity remains lower than that of certain competitor countries.

4

WHEN MOROCCO EXPORTS TO THE SOUTH

Growth is no longer confined to Asian countries and Sub-Saharan Africa has for a decade been very dynamic. After growth stagnated during the 1990s, Sub-Saharan African countries have shown great economic strength driven by the raw materials boom. This more stable growth was stronger during the last decade and was accompanied by a rise in consumption and purchasing power. Africa has become an attractive continent for businesses because of these resources and low production costs and its consumer market. Morocco has a role to play in this development.

Africa an attractive continent

In a period of world slowdown, Africa stands out for its rapid and sustained growth rate. The average growth rate in Sub-Saharan Africa over the 2008 to 2014 period was above 5% against 2.6% for the world economy. This growth is expected to continue in the coming years despite the slowdown observed in 2015, mainly due to a fall in raw materials costs. According to Coface's estimates, the continent's growth rate (excluding North Africa) is unlikely to exceed 4.4% in 2015 against 4.8% in 2014. Sub-Saharan Africa is a region rich in natural resources. The continent has 7% of proven oil reserves, substantial gas and mineral deposits, plus the timber resources of the Central African regions. The 41 Sub-Saharan African countries have a total population of 800 million and this is expected to reach 1.3 billion in 2030, according to the United Nations

Although it accounts for only 3% of the global economy, Sub-Saharan Africa is booming and is attracting new investors. Exports of goods represent almost 30% of GDP, i.e. about 10 points more than in the 90s. The extractive industries are booming and attracting new investors. The emergence of a middle class has led to an increased demand for consumer goods and is contributing to the expansion of new business sectors (the banking sector and the pharmaceutical sector mainly). Finally, the African agricultural sector is modernising and the infrastructures are developing. Africa has become an attractive continent. This attractiveness is explained by the region's significant consumption potential. The emergence of a new consumer base considerably extends domestic market outlets and encourages investors and international businesses to establish themselves on the continent. Demographic growth, rising living standards and increased purchasing power make it a market of the future. The African middle class has been growing by 3.2% since the early 80s and represents more than 300 million people. Substantial investment in infrastructures, particularly transport, is helping to consolidate commercial links between the countries of the region.

Africa a potential market for Moroccan businesses

Morocco has historically played the role of a crossing point between African countries and the European continent. Through its African strategy, it is this role which it intends to play by positioning itself as an entry point for the African market. The creation of the Casa city hub is part of this plan. But its African strategy is not limited to a role as a hub. The country wants to become a player on the continent. Driven by strong political will, Morocco intends to make its development in Africa a new driver of growth. At the same time Moroccan businesses backed by experience on the Moroccan market are capable of responding to the growing demand observed in Africa.

The 2009 crisis and the repercussions of the European slowdown on the Moroccan economy accelerated this process of opening up to the south. The country has developed privileged diplomatic links with the sub-continent over a long period. These relationships of friendship and attachment thus facilitated closer economic relations between Morocco and French and then, later, Portuguese-speaking countries. Several trade agreements have been signed between Morocco and these new partners: eight of them with West African countries and six with Central African countries. Morocco is strongly dependent on European countries, which account for the bulk of the country's tourism, trade and financial flows. So, nearly 60% of the USD 30 billion of exports is to European Union countries, mainly to France and Spain. The importance of trade relations between Morocco and Europe in the Moroccan balance of trade makes the country particularly vulnerable to the European economic slowdown, as was the case between 2009 and 2012. The current account, in surplus in 2006, had a deficit of 6% during this period. Stronger commercial links with Africa will enable Morocco to diversify its outlets and thus limit this dependence.

Morocco has long maintained trade relations with African countries but the trend towards closer ties has been accelerating for some years. The share of Moroccan exports to Sub-Saharan African countries rose from 2.7% in 2000s (2.2 billion dirham) to 6.3% in 2013 (11.7 billion dirham) – an average annual growth of 18%. Morocco's main trading partners in Africa are Senegal (17% of exports in 2013), Mauritania (10%), Ivory Coast (8.1%), Guinea (8%) and Nigeria (7.7%). The country chiefly exports processed products from the agricultural and manufactured goods from industrial sectors. Foodstuffs accounted for 28% of exports in 2013, followed by industrial equipment and semi-finished products, which accounted for 17% and 23% of exports.¹⁸ African exports being weak, the Moroccan

¹⁸ DEPF, «Relations Maroc-Afrique: l'ambition d'une nouvelle frontière» 2014 (Morocco Africa relations: ambitions for a new frontier)

trade balance with Sub-Saharan African countries is broadly in surplus. However, trade flows to the continent are for the most part concentrated on North Africa, which accounts for 60% of trade against 30% for Sub-Saharan African countries. The countries of West Africa remain the main destination of Moroccan exports in the region. They are distinguished by their geographic and linguistic proximity to Morocco. However, Morocco is progressively diversifying its trade flows towards other African countries such as Ghana and Equatorial Guinea.

With a potential market of more than 800 million consumers and a constantly growing demand for consumer goods, the Sub-Saharan African countries represent a real outlet for Moroccan businesses.

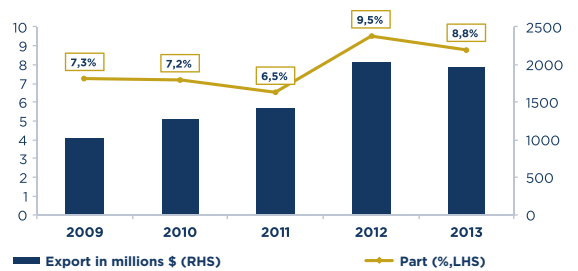
The Sub-Saharan African countries import mainly manufactured products (roughly 60% of imports in 2010), machinery and transport equipment (34%), chemical products (11%) and textiles and clothing (4%). Morocco has a considerable competitive advantage for responding to this demand. Geographical proximity, the low cost of labour and the industry's capacity to offer low cost products enable it to position itself on this market. On very specific segments such as the production of agricultural inputs, Morocco has all the cards in its hand to position itself as the main supplier thanks to its considerable phosphate resources. Moreover the final consumption market in Africa is still under-exploited and demand there is great. There is real potential for Moroccan businesses which target consumer markets. African consumers' preferences are close to those observed in Morocco (proportion, packaging, conservation, living conditions, climate, etc.). Through their knowledge of the African market, they have a real competitive advantage compared with European businesses on this type of segment. For this reason the agrifood business is a good example of the adaptability of Moroccan products and their conformity with the preferences observed in African markets.

Moroccan businesses' competitiveness is also demonstrated by their ability to gain market share. This is constantly increasing. The market share of Moroccan goods in Sub-Saharan Africa has more than doubled in ten years, rising from 0.23% in 2003 to 0.48% in 2013.

The densification of trade flows towards Sub-Saharan Africa is therefore a real lever of growth for the Moroccan economy. On the one hand, by diversifying its export outlets, the country will lessen the vulnerability of its balance of trade. On the other, exports to Africa should help to strengthen Moroccan industry over the whole value chain since African demand is also directed towards businesses producing both goods with low added value (semi-finished and agrifood products) and goods with a high technological content (capital goods).

Moroccan exports to Sub-Saharan African countries and their share of total exports

Chart 10



Source: BMI, Coface

Development of foreign direct investments

However, there remain some obstacles which still limit access to this region. Despite its positioning, Morocco still has to face fierce competition on the African continent where strong growth has awakened the appetite particularly of the emerging countries. China has recently become the Sub-Saharan Africa's biggest partner. Chinese foreign direct investment in Africa amounted to USD 16 billion in 2012 against USD 500 million in 2003. This rapid increase in Chinese investments is attracting other potential investors to the region, which is intensifying competition. Moreover Moroccan businesses have to confront the big multinationals which have long been present and which have, over the years, acquired deep knowledge of the African environment.

Furthermore, transaction costs in Africa remain high and the barriers, both technical and institutional, considerable. Despite a desire for openness, many African countries have adopted protectionist trade policies. Customs duties on the continent average 20% above those of the rest of the world. Non-tariff barriers (import licences, regulations etc.) and the multiplicity of tax regimes are also a major limit to the growth of trade. To this is added the technical constraints related to transport. Morocco does not have a direct road or rail link with its markets. Finally, country risk remains high and the business environment is rarely favourable to exporters. Among the countries of Sub-Saharan Africa many are rated B and C by Coface (in order of importance in Moroccan exports: Senegal B, Mauritania C, Ivory Coast C, Guinea D and Nigeria C).

One way of getting round the tariff and technical constraints is getting closer to these markets. Indeed, businesses have to establish themselves directly. For

this purpose the country seems to be becoming increasingly attractive. The increase in foreign direct investment flows to Sub-Saharan Africa confirms this. Between 2012 and 2013, these increased by 4% or close to USD 57 billion. Moreover, new trends are appearing. In a report on world-wide foreign direct investment flows, UNCTAD¹⁹ highlights several features of foreign direct investments in Africa. First, it observes that FDIs in Sub-Saharan Africa are tending to diversify. Indeed, in 2014, minerals and fossil fuel industries accounted for 14.1% and 11.6% of FDI projects against 2.4 and 3.5% of flows in 2013. Secondly, this phenomenon of FDI diversification is driven by intra-African investments. Among the intra-African FDIs only 3% are for the extraction industries against 24% for the establishment of non-African businesses.

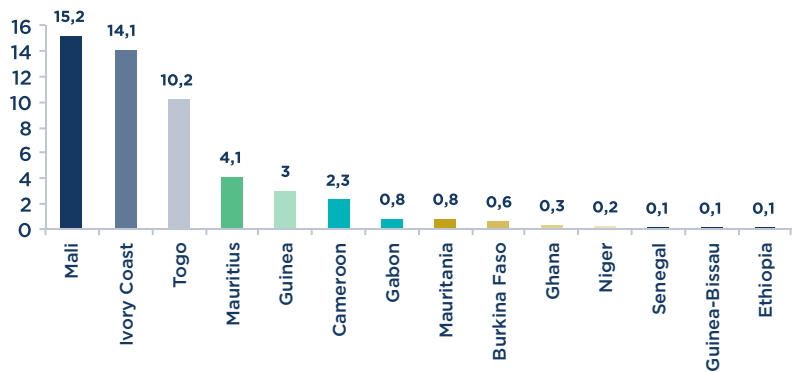
Finally, the sectors reporting an increase in FDIs are mainly tertiary sectors and intended ultimately for household consumption. Among the most attractive sectors are financial services, telecommunications and distribution activities, which respectively account for 17.5%, 16.3% and 13.9% of FDIs from 2007 to 2013.²⁰ This new dynamic is shown in two ways: on the one hand, by the increasingly important presence of African groups active at the continental level and, on the other, by the emergence of transnational pan-African groups. Besides the traditionally globalised sectors (telecommunications), the trend is confirmed in several other activity sectors (banking, services, industry). Coming mainly from the most mature economies on the continental scale, these African businesses have gradually freed themselves from national borders to establish themselves in these new markets. For the most part they have consolidated their position as leader in their country of origin before launching their activity abroad. The maturity and the development of local expertise which characterise these businesses have enabled them to grow rapidly on African markets. On certain segments, as we observe in the banking market, there is a move towards concentration and restructuring around transnational and pan-African players, which, in certain sectors, rival the globalised multinationals.

Morocco, in opening up to the countries of the south, has become a major player in these developments. Encouraged by the Moroccan government's support for south-south co-operation, many Moroccan companies have begun internationalising in the direction of French-speaking African countries. According to the figures of the Ministry of Finance, investments in Africa accounted for 85% of FDI flows out of Morocco and make up 51% of total Moroccan FDIs abroad between 2003 and 2013. The sectors in Africa in which Moroccan businesses are prominent are banking and telecommunications. However, Moroccan groups are beginning to invest in other sectors such as insurance, property and energy under the catalysing effect of royal tours organised by the sovereign. FDI flows confirm this. The majority of Moroccan FDI goes to the banking sector, followed by telecommunications, holdings and industry, which account respectively for

32%, 7% and 3% of Moroccan FDI. But these flows mainly concern large businesses such as Maroc Telecom (telecommunications), BMCE Bank (banks), the ONA group (distribution), and the CCGT group (infrastructure).

Share of Sub-Saharan African countries in Moroccan FDI (%)

Chart 11



Source: Moroccan Foreign exchange bureau

Despite foreign and African competition, Moroccan businesses are achieving some success in their conquest of the south. This success is partly explained by their ability to adapt to the constraints of the African market. The businesses which have accompanied Morocco's development had to use specific and innovative solutions in order to develop in a context of poor resources and low purchasing power. This expertise acquired in Morocco seems to give them a different insight into the markets towards which they direct themselves with tried and tested solutions appropriate to the demand structure. The telecommunications sector is a good example of this. After developing considerable expertise in building up prepaid customer loyalty, the company reproduced these same solutions across its African subsidiaries. Thus we find the Jawal offer and the Mobicash service in Morocco at Maroc Telecom, at Mauritel in Mauritania and at Onatel in Burkina, all three of them subsidiaries of the group.²¹

Moreover, the combined offensive of Moroccan companies on these markets makes it possible to generate synergy effects. Indeed, the presence of Moroccan banks in many of the continent's countries facilitates access to Moroccan exporters and to the group. The presence of retail and commercial banks enables exporters to use the same partner. Moroccan banks thus serve as sources of information and bring market insight. The presence of the same banks limits non-transfer risk and exchange problems (non-convertibility of the dirham, exchange rate variations). Common strategies are beginning to appear. A case in point is the Addoha group, which in its offer of turnkey social

¹⁹ UNCTAD, «World Investment Report 2014: Investing in the SDGs: An Action Plan» 2014

²⁰ Ernst & Young, «EY's attractiveness survey Africa 2014: Executing growth» 2014

²¹ Rapport d'activité et de développement durable, Maroc télécom 2013 (Report on Activity and Sustainable development)

housing, plans to make use of its partnerships with Moroccan banks to reproduce the solutions which made for its success in Morocco.

Another example of a Moroccan sector that exports its “know how” is the case of electricity industrial and services branch. Moroccan infrastructure businesses have been among the first to export their expertise to the countries of the south. In 2006, ONE signed a contract with the Senegalese government to carry out an electrification programme, which would meet the electricity needs of 36,000 people. Since the launch of the global electrification programme, the electricity and energy sector has undergone big and rapid development. Begun in 1995 this has made it possible to meet the electricity needs of the Moroccan population. The ONEE has thus developed solid experience in the application of solutions for meeting the electricity needs of the most isolated populations. With the

finalisation of the PERG (national programme of rural electrification), the whole sector has sought new outlets and sees an opportunity for expansion in Africa. The ONEE is setting the pace for this development and has positioned itself in several countries. Although this market is highly competitive and dominated by Chinese, Indian and European players, Morocco is positioning itself in the hybrid solutions segment (mini grid systems and mini photovoltaic power plants). As we have shown, Africa is an attractive continent, which is showing strong growth. But, despite the promise of many opportunities, establishing a business remains difficult. There are many obstacles to free access to the continent. These are mostly institutional (unfavourable business climate, high levels of corruption) but also relate to the specific characteristics of the African consumer market (small number of bank account holders, size of the informal economy, low purchasing power).

5 SOME RISKS TO BE WATCHED

The development strategy favoured by Morocco is beginning to show results but the country’s ambition to join the club of the “new emerging countries” is coming up against certain limits.

Considerable investment but questions regarding its effectiveness

Morocco has committed to major public investment necessary for implementing the different structural reforms. The Green Morocco Plan alone has required a government investment of more than 31 billion dirhams or 4% of GDP.

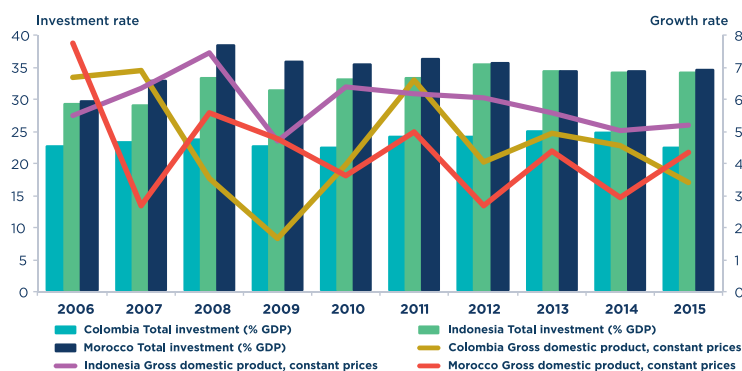
The share of investment spending in total public spending increased from 14% in 2005 to 23% in 2009. But this increase seems to have limited effectiveness compared to that of other countries. Chart 13 compares Morocco’s investment rates and growth rates with those of Indonesia and Colombia over the period 2006-2015. Morocco has the highest investment rate of the sample but the least rapid growth.

The ICOR,²² which measures the degree of effective use of capital in an economy, also reflects this reality. The higher the marginal capital co-efficient, the less effective is the capital. With an ICOR of 8.38 from 1990 to 1999 and 6.16 from 2000 to 2011, investment effectiveness remains low in Morocco, even though it has improved. By way of comparison, the ICOR of Indonesia, which has comparable investment rates, was 5.1²³ over the period from 2000 to 2011 and that of the African continent 4.1.²⁴

The country has chosen to support the rise of new activity sectors through a policy of making the country attractive for FDI. The direct effects of such an initiative are already clear in the export data. We can nevertheless wonder about the ability of these new sectors to generate spill over in the Moroccan context. Indeed, the industrial policy has brought about major public investment in infrastructure (Tanger Med) and human capital (investment in new training programmes) with the aim of attracting foreign companies.

Development of investment rates since 2005

Chart 13



Source: IMF

²² Incremental capital output ratio

²³ OECD, “Economic Outlook for Southeast Asia, China and India 2014: Beyond the Middle-Income Trap” 2014. Authors’ calculations.

²⁴ CNUCED: «Le développement économique en Afrique : Catalyser l’investissement pour une croissance transformatrice en Afrique.» 2014 (Economic development in Africa: Catalysing investment for transformational growth in Africa)

Besides the effects in terms of direct employment, the implications in terms of technology transfers could be limited. Morocco admittedly seems to have entered a virtuous circle of increased total factor productivity²⁵ but human capital and R&D resources remain too weak to sustain the catch up to the technological frontier. The World Economic Forum's human capital indices confirm this. Morocco is placed 87th, far behind Indonesia (53rd), Colombia (71st) and Tunisia (67th).

An increase in the deficit and the public debt

This significant public investment effort is also accompanied by higher current spending. The country has followed a counter-cyclical policy of supporting demand. Spending from the compensation fund increased between 2009 and 2012, rising from 2% of GDP to 7%. Spending on civil service salaries also rose but to a lesser degree. Since 2013, the reform of the compensation fund has made it possible to lighten the burden of subsidies in public spending (this ratio is not expected to exceed 3% in 2015) but the public accounts remain greatly in deficit.

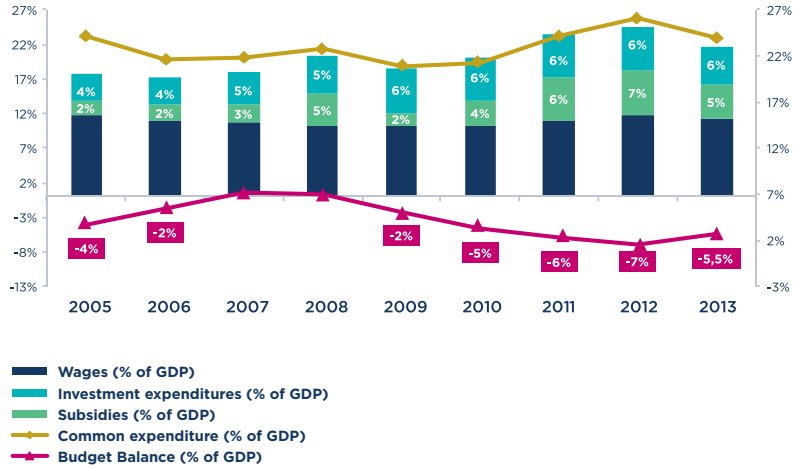
These chronic public deficits have led to an increase in debt, which increased from 53% of GDP in 2008 to 63% in 2013 and is expected to reach 65% in 2015. Moreover, the debt service to fiscal revenue ratio has been growing steadily since 2008 and is expected to reach 11% in 2014. Steps to reduce the public deficit should make it possible to reverse the trend for the public debt to increase from 2015. However, according to the IMF's calculation the public debt will not return to a level comparable with that of 2012 until 2020.²⁶

Successes which hide sectors in difficulty

Finally, the rise of new industrial sectors must not obscure the reality of Moroccan industry. The labour force remains concentrated in industries with low capitalisation. The textile industry is, for example, the 4th ranked export industry after agriculture and accounts for 42% of industrial employment. The textile industry saw its share of total added value decline from 4.7% in 2000 to less than 3% in 2013. And the number of firms in the sector has fallen sharply. The sector is exposed to competition from low-cost countries and has little protection from variations in the world economic situation. The conclusion of "multifibre" agreements has also greatly weakened the sector. The concentration of textile exports on the European market makes it particularly dependent on growth in the Eurozone, which is struggling to recover. Finally the sector's low productivity and lack of innovation testifies to the firms' difficulties in reinventing themselves.

Evolution of public spending

Chart 14



Source: DEFP, Manar database

6 CONCLUSION

The development strategy chosen by Morocco seems to be yielding its first results. The country has taken a step towards stronger and more stable growth. Through an aggressive agricultural policy, it is moving to consolidate its agricultural GDP. Support for the higher added-value industrial sectors is creating new sources of growth. Finally the diversification of trade outlets towards the south could be a solution to the vulnerability of the external accounts. However, these ambitions have certain limits. First, Morocco has committed substantial resources to the different policies and, although initial results are promising, the benefits derived may not have the anticipated effects. Secondly, the increase in public spending combined with a current account deficit does not allow a reduction in the country's structural vulnerabilities related to its twin deficits. The increase in the public debt in recent years confirms this. Finally successes in these new sectors hide the difficulties encountered in other segments of activity, as in the textile sector.

²⁵ Morocco experienced a decade of negative total factor productivity. For details see the following article: UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION, «Explaining productivity change in Morocco» 2007 DEVELOPMENT ORGANIZATION, «Explaining productivity change in Morocco» 2007

²⁶ According to the IMF, Moroccan public debt is expected to peak at 65% of GDP in 2015 and then to fall and stabilise at around 59% in 2020.

RESERVATION

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