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Department of Studies and Financial Forecast

Foreign Trade Policy In Morocco: A Broad Assessment

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Introduction

The liberalization and opening up of trade on the international scene are at present compelling choices. The increasing globalization of production, made possible by the dismantling of productive processes and the rapid development of technology, has made of foreign trade a central pillar to economic growth as well as an undeniable source of wealth.

Indeed, the evolution of world trade over the last ten years shows the steady increase in international exchange at a rate of 6.2% a year on average against 3.7% with respect to world production. This is indicative of the increasing opening up of economies and the successful implementation of policies either within the framework of World Trade Organization or though regional trade agreements that provide an alternative to internationalizing foreign exchange.

However, results obtained vary from one country to another. Success stories in some countries show that a regional integration is crucial to a beneficial participation in international trade exchange. They also reveal that modernizing the structures and institutions of trade policy is a prerequisite to a successful integration of international networks of production and marketing.

This paper initially outlines Morocco’s record in the area of foreign trade. It also highlights the multilateral and regional dimensions of foreign trade policy as well as the initial implications of free exchange policy conducted to the present day. It finally attempts to examine issues of tariff protection as well as modernization reforms Morocco has undertaken to increase the benefits to be drawn from opening up to foreign trade.

1- Trade Opening up Policy: Options for Morocco

Since the early eighties, Morocco has followed the trend of emerging and developing countries and subscribed to the process of liberalizing foreign trade. It has taken measures towards promoting exports and liberalizing imports by reducing custom duties and removing the list of products that are banned or subject to qualitative restrictions.

1.1. Reform of Trade Policy

Morocco has made significant progress through instituting the freedom to import and export goods and services subject to compliance with the current regulation. Import licenses have been cancelled. This cancellation does not apply to certain products that are public related and carry safety hazards or to qualitative import restrictions notified to the WTO.

The foreign trade law passed in 1993 was enforced through the removal of quantitative restrictions and the recourse to custom tariffs as a viable means to protect domestic production.

Since 1996, Morocco has pursued the liberalization process to further enhance the simplicity, transparency and rationality of customs taxation. The following measures have been taken with this aim in mind:

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- Lowering the number of fixed rates of import duty that apply to non-agricultural products to seven rates (2.5%, 10%, 17.5%, 25%, 32.5%, 40% and 45%). In addition to these import duties, there is a 0.25% special tax levied on imported goods.

- Removing the G and U columns from the tariff of import duties in 1996 and the incorporation of import tax deduction in import duty in 2000.

- Integrating tariff based provisions outlined in the framework law number 18-95 constituting charter for investment in customs tariff.

- Alleviating customs taxation that applies to contraband goods. (The 2007 Finance Act)

- Underscoring the economic role customs duties play by reducing and standardizing the tariff that applies to raw materials and goods.

While honouring its commitment towards the WTO, Morocco seeks, through various measures, to promote investment, stimulate its economy and fight contraband. Within the tariff framework currently in force, import duties are levied strictly ad-valorem on the CIF goods value.[1] There is therefore no specific or mixed duty. Neither is there a season tariff.

Besides, reforms that have been in place at the Customs Office since 1997 are clearly evident in the drastically reduced time of customs clearance (brought from over five days prior to 1997 down to one hour at present) as well as in the clarity, transparency and predictability of customs procedures.

1.1.Morocco's Record in Foreign Exchange

Following a steady increase during the eighties (1981-1990), Morocco's exports slowed down during the nineties, progressing at a rate of 6.9% against 16% the decade before. This situation persisted between 2001 and 2006; a period during which the pace of exports' increase was slow and slightly inferior to that of the GDP (6.2%).

GDP Average Growth of Imports and Exports

Current Rates)

	Average (198 1-1990)	Average (1991-2000)	Average (200 1-2006)
GDP	11,3	5,3	6,5
Imports	14,6	7,3	9,5
Exports	16,0	6,9	6,2

Source : DSFFstimates

The lack of dynamism witnessed by Morocco's exports since 1991 is due to a persistently high offer in exports; which could be in turn ascribed to a number of variable factors such as the moderate evolution of Phosphate prices and consecutive periods of

[1] Morocco uses the standardised custom system

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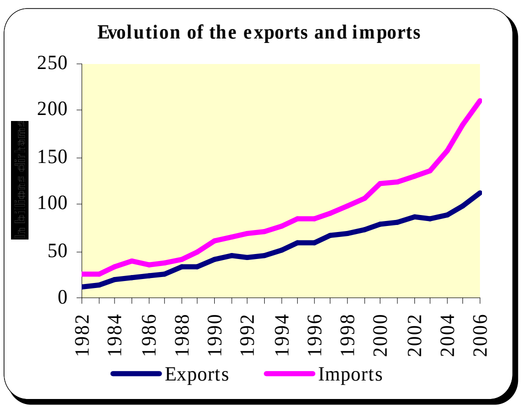
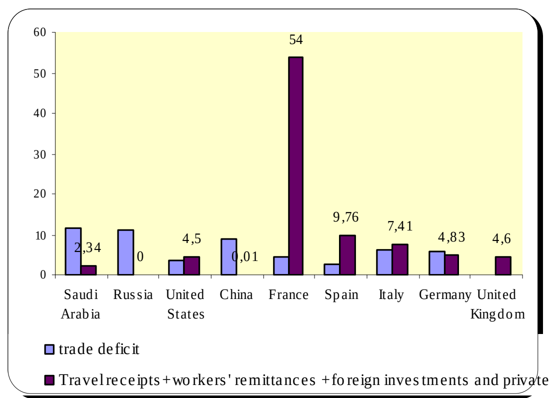
economic recoil in the Euro Zone. In fact, the concentration of Morocco's exports on the European market increases their vulnerability to the effects of the cyclical turnaround of the economic situation in the Euro zone as well as to those occasioned by a decline in European demand for our country's products. Following the expiry of MFA (Multi- fibre Arrangement) in 2005, textile-clothing exchanges have switched back to the general system; which obviously resulted in a drop in exports of this sector, a drop further compounded by the fierce competition presented by some emerging economies in Asia and Central Europe.

On the whole, imports progressed at a sustained rate of 9.5% on average over the period between 2001 and 2006 against 7.3% between 1991 and 2000. Such evolution shows the effects of economic catch up clearly evident in the increase in purchase of industrial goods and other commodities crucial to stimulating investment as well as in the impact of soaring prices of raw materials, namely crude oil and wheat. In fact, imports in oil and wheat have reached an incredibly high record and steadied respectively at MD 26.2 billion and MD13.9 billion in 2007.





Source: Office of Changes

In view of these developments, Morocco's foreign exchanges have shown an increase in trade deficit which went up from MD 44 billion in 2001 to MD 97.9 billion in 2006 bringing down the margin ratio from 64.6% to 53,3 % for the same period. In geographical terms, trade deficit was at its highest with Saudi Arabia on account of oil imports, followed by China.

At first glance, this deficit might be ascribed to a supposedly weak domestic fabric of production or to an economy that is sensitive to variable shocks. However, a closer examination reveals that imports of industrial goods and energy products, which respectively make up 21.7% and 21.8% of Morocco's overall imports in 2006, account for this deficit. This should not be surprising for a country that has reached a stage of considerable development despite being meagerly endowed with energy resources.

It must be stressed, however, that the trade deficit in the Moroccan economy has been largely compensated for by the steady surplus in transfer and service accounts. In fact, with the exception of Saudi Arabia and Russia, trade deficit with countries in association or exchange agreements with Morocco is counterbalanced by the massive inflow of tourist revenue, transfers made by Moroccan nationals in residence abroad as well as foreign investment, especially from France and Spain and to a lesser extent the USA.

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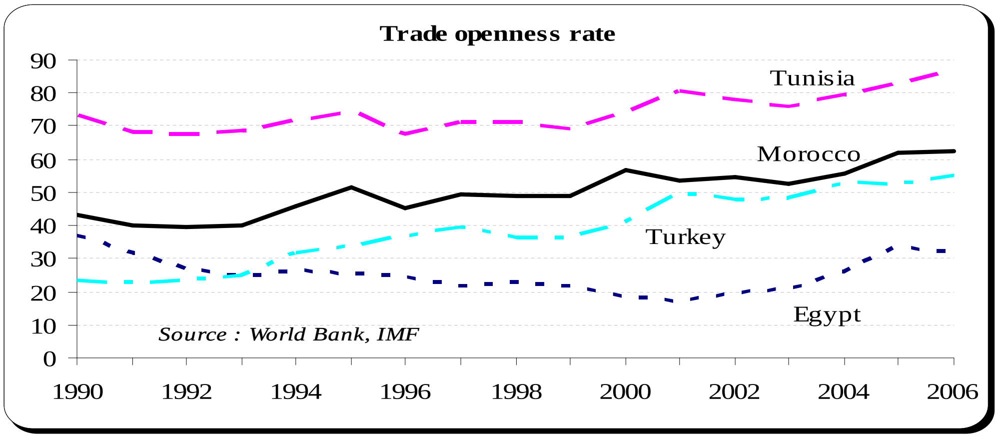
Compared to other emerging economies, Morocco relentlessly pursues its project of integration in world economy, opening up its trade at a rate of 63% in 2006, which is a twenty- point increase in comparison to the early nineties. Morocco's rate of trade opening compares favourably to that of medium revenue countries (62%) and countries of the MENA region trade (60%), but remains below the record achieved by some countries such as Tunisia (87%).



In spite of a national economy that is increasingly opening up and the state's efforts to put in place instruments for financing exports, insurance, and tax incentives, exports could not provide a driving force of economic growth. This is due to the limited competitiveness and heavy concentration of Moroccan exports on the European market. These exports tend to be on offer in sectors that are high labour intensive, low technology based and price sensitive. On these grounds, these sectors are generally considered not sufficiently dynamic in the set up of foreign trade.

On the whole, exports remain concentrated on some sectors with low added value activity and limited prospects for expansion. This situation is clearly evident in Morocco's market share that has remained somewhat stable over the last decade at around 0.12%. The world market share in other countries such as Turkey, Romania and, to a lesser extent, Bulgaria has known an upturn and is very likely to grow on account of trade expansion opportunities on EU markets.

1.3 Structure of Morocco's Trade Exchange

An analysis of exports trend by product category for the period 1998-2006 shows a quasi-stagnation for foodstuffs and raw products in the country's total exports. By contrast, the share of semi-processed products has gone up from 18% to 29% together with an increase in exports of chemical products.

The category of products to have most positively affected exports' record over the last few years involves textile and clothing products with about 27% of total exports in 2006 and OCP (Office Cherifien des Phospahtes) products with 16% as well as sea products. Agricultural products have barely exceeded 6% in 2006 and remain subject to climate changes.

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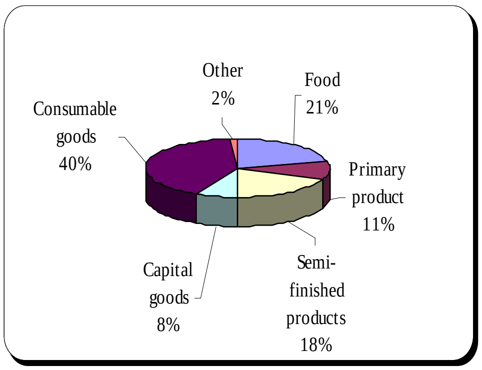
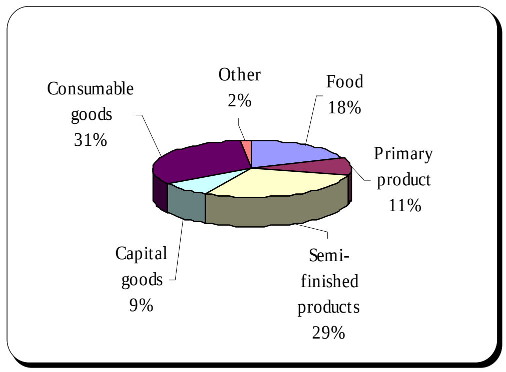
As to imports, and with the exception of energy products that witnessed a 21.6% increase in 2006 after 9% in 1998, the share of other product categories remains rather stable. In fact, four product categories make up the largest part of Morocco's imports: energy products, consumer goods, semi-processed products, capital goods that accounted for 86% of overall imports in 2006. Imports of semi-processed products mainly involve chemical products, iron and steel. The increase in imports of food products is underlined by the country's needs for wheat. These needs have remarkably risen during the period of drought and remain subject to the rising wheat prices on the international market.

Break up of Moroccan Exports by Product Category

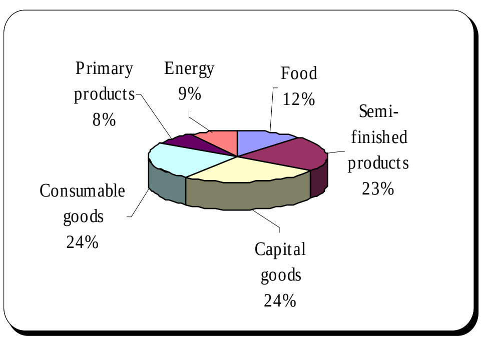
1998 **2006**

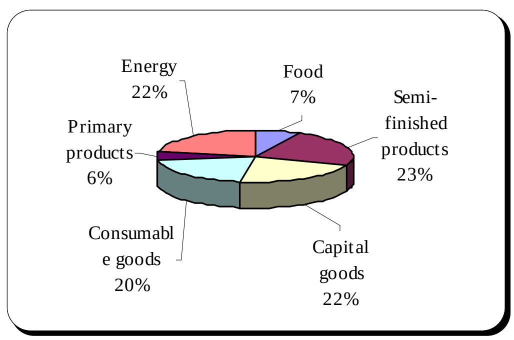




Break up of Moroccan Imports by Product Category

1998 **2006**





Source: Office of Changes

An analysis of the geography of Moroccan exports for the period 1998-2006 reveals a new redistribution system of foreign outlets following the succession of free exchange agreements ratified by Morocco. France's share in these exports has significantly recoiled from 34.7 % to 28% during this period. It, nonetheless, remains Morocco's leading client followed by Spain with a share of 21%.

As to exports to Asia, India is by far Morocco's main client with a share of 4.2% of total exports. For their part, exports to America remain concentrated on the U.S.A and Brazil which respectively represent 1.9% and 2.3% of Morocco's total exports.

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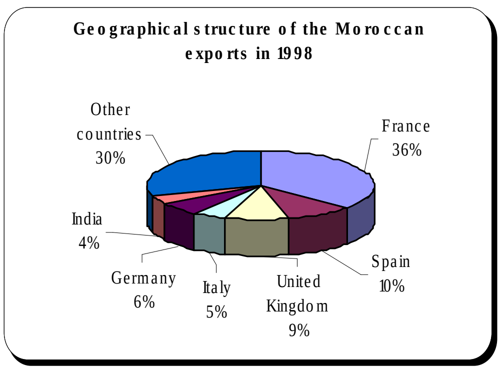
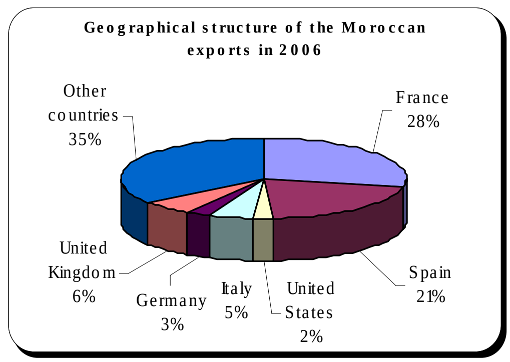
The geography of imports follows practically the same line of logic as that of exports. The EU’s leverage in the country’s total imports is clearly decreasing. It levelled off at 52.4 % in 2006. (See framed section)

The impact of free trade agreements undoubtedly offers new procurement opportunities for national firms, yet these developments carry a price effect occasioned by the rise of international prices of certain imported products; which in turn results in the increase of certain countries’ share of Moroccan imports. Saudi Arabia’s leverage in Moroccan exports went up from 3.2% to 6.7% between 1998 and 2006.

1998



2006



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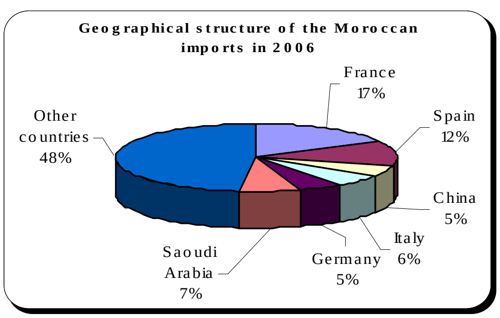
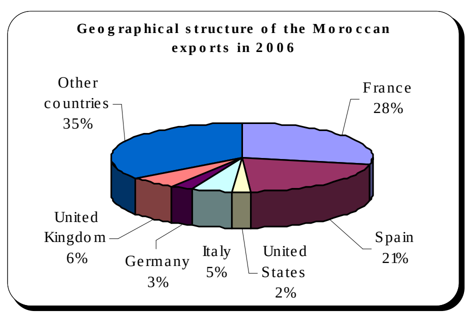


2006



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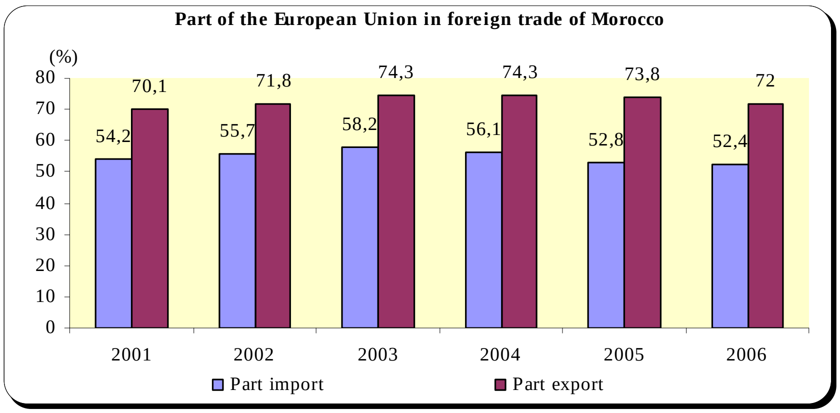
Trend of Exchanges with the European Union

The European Union is Morocco's major trade partner accounting for 59, 3 % of its trade exchange in 2006 against 60.1% in 2005. It absorbs 72% of Moroccan exports against 74.3 % in 2004 and supplies more than half of the country's imports (52.4% against 52.8% in 2005). Morocco's trade balance with the EU, which is structurally running at a deficit, reached MD 27.9 % billion in 2006. With the exception of a surplus in the case of Great Britain, a surplus that amounts to MD 2.3 billion, exchanges with other EU member countries yielded high trade deficits in 2006 especially towards Italy (MD 7.8 billion), Germany (MD 6.5 billion) and France (MD 3.7 billion).



In spite of an increase in Morocco's exchange with the EU for the past years, Morocco's share of EU's global trade has remained relatively stable (0.7% in 2006 against 0.75% in 2000). Morocco is ranked as the 31st trade partner of the EU (36th supplier of the EU and 26th client). Morocco's share remains far below that of countries of Latin America, such as Brazil with 1.7%, some Asian countries such as South Korea with 2.4%, India with 1.8% or Hong Kong with 1.3%.

An examination of the geography of Morocco's trade exchange with the EU shows that France remains by far the leading partner accounting for 17.1% of total exchange followed by Spain with 11.5% and Italy with 6.4%. France also maintains its leading position in Moroccan exports to EU markets. It absorbed 28% of exports in 2006 taking the lead over Spain with 21% or better still over Great Britain with 6.9% and Italy with 4.8%.

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There have been changes in the structural patterns of Morocco's exports to the EU. The share of primary products went down from 29.2% in 2001 to 24.2% in 2006 while that of manufactured goods recoiled from 69.3% to 63.3% between 2001 and 2006. Compared to EU's total imports, Moroccan exports of agricultural products accounted for 1.9% in 2006. Exports of manufactured products, for their part, had a 0.6% market share.

Manufactured products take up a large part of Morocco's imports from the EU with a staggering 77.2% market share in 2006. Machinery and transport equipment are some of the major imported goods, respectively accounting for 26.5% and 9.7% of Morocco's total imports from the EU.

2. Multilateral and Regional Integration

Opening up to the outside world has always been Morocco's strategic choice that is crucial to stimulating economic growth. Such a choice potentially attracts foreign investment that benefits the country through know how and technology transfer as well as other skills relating to management, logistics and job creation.

This choice was materialized through the signature of a wide range of bilateral and multilateral agreements that entitle partners to tariff reduction and sets recommendations for preferential trade arrangements. These agreements are part of Morocco's effort to have a firm foothold in a changing regional and international environment.

In addition to its membership to the WTO in January 1995, Morocco has signed free exchange agreements with the EU (1996), the Arab Zone of Free Exchange (1998), the EAFE (European Association of Free Exchange) (2000), the Agadir Round (2001), Turkey (2004) and the USA (2005). Other agreements have been signed with African and Arab countries with a view of further consolidating cooperation with countries of the South.

2.1 Membership to WTO

Morocco subscribed to GATT in 1987 and has been member of WTO since January 1st, 2005[2]. It therefore grants MFN (Most Favoured Nation) status to all its trade partners and actively participates in various WTO forums and negotiation rounds. Morocco has repeatedly underscored its attachment to the multilateral trade system, considered beneficial to economic growth, development and to welfare. However, the country has always claimed an equitable sharing of benefits drawn from multilateralism among all countries and pleaded that special and differentiated treatment should be a fundamental component in negotiations.

Besides, Morocco has met most of the commitments provided for in the various agreements governing multilateral trade of goods and services[3]. It also introduced new measures to adapt national legislation to TWO[4] principles and rules. It has particularly

[2] The GATT Uruguay Round negotiations, which gave birth to the WTO, were rounded off in Marrakech in April 1994

[3] To consolidate its transparency and predictability, Moroccan trade policy has been tested three times since 1989. The last evaluation was conducted in 2003.

[4] A new foreign trade law was promulgated in 1992 in compliance with GATT terms.

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amended its legislation in 1997 to protect agriculture with tariff equivalents and safeguard measures.

Morocco has included import tax deduction in import law, consolidated tariff lines, lowered consolidated tariffs and set tariffs to qualitative restrictions involving agricultural products.

As to agricultural products, Morocco has lowered tariffs provided for in agreements (2.4% per year). Eight discount installments have been carried out. These make up 19.2%. Morocco regularly issues notifications relating to export subsidy, domestic support, special safeguard measures, and tariff quota. It must be stressed that negotiations involving agriculture were integrated to the Doha Round during the fourth edition of the WTO Ministerial Conference held in Doha in 2001.[5]

Morocco has gradually integrated and liberalized the textile and clothing sector. Since the TWO agreements took effect, the country has covered the four phases of the integration process at respective rates of 16%, 17%, 18% and 49%. These phases were meant to progressively subject the trade of textile and clothing products to TWO rules and regulations.

Likewise, the liberalization of services is proceeding in compliance with the WTO's General Agreement on Trade of Services (GATS). In this respect, Morocco has opened up the sector of telecommunications and liberalized its financial system through modernizing the legislation governing the stock exchange, passing a new banking law and instituting a new insurance code. Morocco has also made considerable effort to modernize the legal and institutional framework pertaining to the protection of intellectual property.

2.2. Association Agreement with the EU

Morocco's ties with the EU were further strengthened in 1996 by way of the Association Agreement that took effect on March 1st 2000. The agreement provides the legal base of relations between the two partners. It aims at gradually putting in place the free exchange of industrial products, already granted free access by the EU. For its part, Morocco has shown commitment towards a gradual tariff dismantling over a period of ten years. With regard to agricultural products, new reciprocal trade concessions took effect in January 2004.

With respect to industrial products from the EU, the dismantling of tariff barriers is being carried out at varying and decreasing pace and according to the degree of product sensitivity. On this basis, products now feature on six different lists: Three are general while the remaining three are particular.

- Since the agreement took effect, there has been a total tariff dismantling for industrial goods (List 1). These are goods that are not manufactured in Morocco and whose import duties were low (usually 2.5%)

- Upon the agreement's taking effect, there has been a rapid tariff dismantling for raw materials, spare parts and non-Moroccan made products over a four-year period at a rate of 25% a year. (list 2)

[5] The outcome of these negotiations is mild on account of the internal assistance to agriculture in developed countries. This does not enhance additional exchanges between developed and developing countries.

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- § There has also been a slow tariff dismantling over ten years at a rate of 10% and a three-year grace period for industrial products manufactured in Morocco. (List 3)

These three lists feature 60% of Moroccan imports. The situation, however, varies from one sector to another.

Table 1: Tariff Dismantling Calendar

Year of dismantling	Equipment Goods (List 1)	Raw Material & Products not manufactured locally (list 2)	Products manufactured locally (list 3)
2000	100%	25%	Grace Period
2001		25%	Grace Period
2002		25%	Grace Period
2003		25%	10%
2004			10%
2005			10%
2006			10%
2007			10%
2008			10%
2009			10%
2010			10%
2011			10%
2012			10%

Source, Lists appended to the agreements

Particular lists relate to automobiles and industrial components of processed agricultural goods:

- § Tariff dismantling for automobiles (List 4) is initially slow (3% a year from the 4th to the 6th year of the agreement's taking effect) and picks up at a rate of 15% a year for subsequent years until import duties are completely phased out.

- § Tariff dismantling for industrial components of processed agricultural products proceeds at two different paces: over a four-year period since the agreement took effect (List 6-1) or over a ten-year period starting from the fourth year. (List 6-2)

2.3 Morocco-USA Free Exchange Agreement

The free exchange agreement between Morocco and the U.S.A took effect on January 1st 2006. This comprehensive agreement touches on almost every field such as free access to markets of agricultural and industrial products and for the first time to service industries.

The agreement offers protection for intellectual property, legal instruments that ensure security and guarantee for American investors, open procedures, measures towards transparency, ethics and fair competition as well as protection of labour and the environment. Access to the Moroccan market entails using as reference the dismantling outline already in force with regard to the European Union. As to industrial products, the agreement involves

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five types of dismantling, from intermediate to long range dismantling over a ten-year period:[6]Two types are of particular importance

- § A tariff dismantling over periods of two years and five years for non-Moroccan made products that represent 58% of Moroccan tariff positions. These positions involve products such as capital goods and non-Moroccan goods which make up at present 93% of U.S exports to Morocco.
- § A tariff dismantling over periods of nine and ten years for non-Moroccan products that represent 42% of tariff positions. Domestic industry will have to meet deadline towards upgrading itself and benefit from this agreement.

The American export sector involving machinery, IT, construction equipment and chemical industry have free and immediate access to the Moroccan market. On the whole, 32% of tariff positions benefit from zero rate once the agreement takes effect.

As to the textile sector, the dismantling outlines adopted in terms of lowering custom duties and quota-based accesses are almost symmetrical. The agreement provides for a dismantling of custom duties over a six-year period for major products (83% and 78% of tariff positions for Morocco and the U.S.A respectively.

The agreement also provides for a quota equivalent to 30 million square metre of textile products in deviation from the original rule of triple transformation. This quota should remain stable for the first four years following the agreement's taking effect and will be later lowered in a linear manner for the six subsequent years. The agreement allows for a quota equivalent to 1.000 tons of thread and fabric made of cotton fiber from the least advanced countries of sub-Saharan Africa (PMA).

With regard to agricultural products, the agreement shows awareness of the need to accompany the process of upgrading, modernizing and gearing the Moroccan sector of agriculture towards high added value domains. Thus, it allows for a gradual opening up which takes into account domestic production and the sector's needs. A special attention will be given to products considered sensitive, namely wheat, livestock and poultry. In return, immediate and free access is granted to Moroccan fresh or preserved produce such as oranges, flowers, olives and tomatoes together with all processed agricultural products with or without quota.

Both parties, the U.S.A and Morocco grant national status to their respective product and make commitment to remove custom tariffs and non-tariff barriers such as import licenses, quota to imports and unjustified trade restrictions affecting in particular U.S new technologies. However, the agreement stipulates that a product must have a least 35% of added value from Morocco or the U.S.A. to benefit from preferential status.

2.4 Morocco-Turkey Free Exchange Agreement

[6] With regard to a limited number of products, duties will be gradually phased out over a 15-year period starting from the date the agreement took effect

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The Free exchange agreement, which took effect on January 1st 2006, allows for access of Morocco's industrial products to the Turkish market. Custom duties on imports will be phased out over a ten-year period.

The dismantling table provides for two lists:

1. A tariff dismantling over a ten-year period and at a rate of 10% a year starting from the date the agreement took effect.

2. A tariff dismantling over a ten-year period at a rate of 3% a year starting from the date the agreement and at a rate of 15% as of the fourth year.

As to preliminary rules, the two parties have agreed to adopt the Euro-Mediteranean Protocol within the framework of the association agreement between Morocco and the European Union.

Turkish Industrial products, not featuring on the aforementioned lists, have been exonerated since the signature of the agreement. As to agricultural products, the agreement provides for an exchange of concessions on lists of products with a view of gradually improving these concessions.

With respect to service industries, the two countries intend to strengthen their cooperation in order to further enhance the flow of bilateral investment and closely follow on the gradual trade liberalization of their respective services. Finally, the agreement provides for anti-dumping policies as well as protectionist and compensatory measures which could be taken in the event of illegal trade practices.

Given these circumstances, the trade exchange agreement with Turkey would enhance the Moroccan products' accessibility to E.U markets through the Pan-European cumulative system of preliminary rules. It would also be a driving force within the integration process in the Mediteranean region thereby serving as a perfect shield against the threat of increasing competition presented by Asian countries, particularly China.

2.5 The Agadir Round

The Agadir Round, which marked Morocco's signature of agreements with Tunisia, Jordan and Egypt, seeks to speed up the process of South-South regional integration. It anticipates lifting major tariff and non-tariff barriers levied on bilateral trade in the prospect of setting by 2012 a Euro-Mediteranean Free Exchange Zone. Industrial products will be totally exempt upon the agreement's taking effect. Agricultural products and food industry goods will be liberalized in accordance with the master program of establishing the greater Arab Zone of foreign Trade Agreement (GAFTA). The liberalization of services will be negotiated among member states in compliance with the GATS provisions.

This agreement was signed in February 2004 but was not put in force until March 2007, after member countries issued circulars on customs enforcement. This delay was due to the lack of standardized clauses in the agreement among the countries, especially clauses

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relating to the agricultural component. [7]However, the compromise that was reached stipulated that exemption from custom duties would apply only to exports of agricultural products from countries considered net importers of these products.

The Agadir Round is expected to stimulate trade agreements among signatory countries and attract foreign investment to the region through lifting structural obstacles that hinder the expansion of this new common market of about 120 million consumers and with a cumulative GDP of about Euros 150 billion.

A system of monitoring imports was put in place in an attempt to gauge the risks that the implementation of the agreement could present to the Moroccan economy. One measure consists of monitoring the level of imports of certain products to ward off any potential threat to domestic production. The system particularly involves agricultural products such as rice, olive oil, sugar, flour, paper and juice.

Opportunities and Consistency of Morocco’s Foreign Exchange Agreements

An examination of the provisions of agreements outlined above reveals that they are relatively consistent. However, each agreement has distinctive features and presents opportunities as well as threats to the national economy.

With respect to the sector of agriculture, the provisions of Morocco’s agreement with Turkey include a limited exchange of concessions on account of this sector’s sensitivity in both countries. By contrast, Morocco’s agreement with the U.S.A gives paramount importance to the agricultural component. It, nonetheless, allows a 15-year transition period before Morocco completely opens up its market to American agricultural products. During this period, the U.S.A. is expected to contribute to the process of upgrading Morocco’s agricultural sector through the transfer of technology and know-how. In view of its scale and the spending power of its consumers, the American market offers widespread trade opportunities to Morocco’s exports of agricultural products.

In spite of these prospects, the opening up of the American market to Moroccan products does not necessarily guarantee their accessibility. In addition to the factor of geographic distance which, in turn, vehemently raises the issue of adequate transportation modes, the American market is known to be heavily protected by non-tariff barriers that are for the most part sanitation- and phyto-sanitation-based. This calls for a diligent pursuit of the process of upgrading the system of domestic production and making Moroccan products more competitive through factors other than pricing. Such factors include quality, reaction to modes of consumption as well as compliance with standards of the American market.

Turkey is one of the leading sub-Mediteranean suppliers of textile products to Europe. Morocco’s agreement with Turkey could potentially settle the issue of supplies of raw materials. In fact, Moroccan textile manufacturers could import fabrics and other goods. This way, access to EU markets and total exemption from custom duties on final products would

[7] By virtue of a preference clause in the free trade agreement between the U.S and Morocco, the two countries should benefit from any advantage granted by Morocco to an Arab country. However, contrary to other agreements concluded with Turkey or the EU, the Agadir Round provides for an immediate dismantling for agricultural products, which could result in a big inconvenience for Moroccan agriculture.

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be granted to Moroccan goods made in accordance with the Pan-Euro-Mediteranean principle of cumulative preliminary rules.

Morocco's agreement with the U.S could provide an excellent opportunity for the textile and clothing sector. At a time when Morocco's foothold in the European market is likely to be undermined in the face of Asian competition, free access to America, arguably one of the most important markets in the world, could eventually make up for the country's loss of market share in Europe.

Morocco's agreement with Turkey endorses the gradual liberalization of trade services. It would provide an excellent opportunity for players from both countries to further strengthen cooperation by enhancing the flow of bilateral investment.

For its part, Morocco's agreement with the U.S.A endorses commitments made in 1995 towards liberalizing financial sectors but adopts a 'negative listing" approach. In fact, financial sectors have been given a larger scope of maneuvering. Morocco reserves the right to introduce any new regulation of financial sectors and the prerogative to grant benefits exclusively to public financial institutions and without extending them to their private counterparts.

On the whole, Morocco's policy of liberalizing and opening up its trade is an irreversible option. It is implemented with the prospect of a closer integration in the regional environment as well as a firmer foothold in international markets. However, increasing the number of trade exchange agreements should not be an end in itself and could in no way replace multilateral commitments made to WTO; commitments that serve as support systems to policies of growth and modernization.

These agreements could be viable only once relayed by investment flows into the country and through setting up bi-national firms operating in thriving industrial sectors or engaged in large-scale infrastructure projects. In view of its geographical position, Morocco could serve as a platform of exports to neighboring markets on behalf American and Turkish firms.

3. Assessment of the Preliminary Impact of Morocco's Trade Opening up Policy

A geographical analysis of the numerous foreign trade agreements ratified by Morocco shows the strong presence of the EU as a leading trade partner.

3.1 Foreign Exchange with the EU: A Lever to Morocco's Foreign Trade

The implementation of the Association agreement with the EU together with tariff dismantling offer some teachings on tracing the entire course of action taken so far and gauging their preliminary impact on the domestic economy particularly in terms of trade flow.

The EU's share in Morocco's total exports remains relatively stable. On the other hand, the Eu's leverage in the country's imports has gradually decreased (52.4 % in 2006 against 57% in 1996). Of EU countries, France and Spain are Morocco's leading partners and take up respectively 28% and 21% of exports as well as17% and 12% of imports.

On the surface, this may suggest that the EU's leverage as a leading trade partner has known but a slight change in comparison to the years prior to the signature of the association

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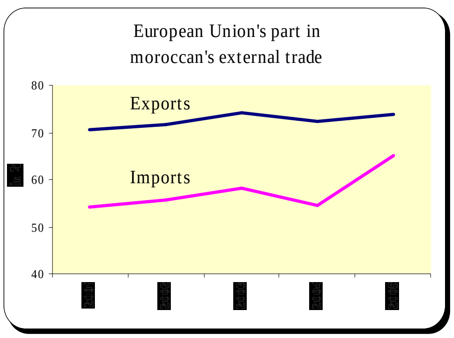
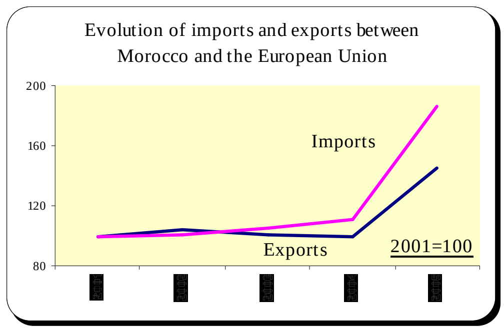
agreement. This simplistic approach does not fully appreciate the real impact of the trade agreement with the EU. A viable indictor to gauge the impact of “trade creation” would be in this case the ratio Exports-GDP which has gone up from 13.9% to 16% during the period between 1996 and 2005. For its part, the ratio Imports-GDP has increased from 15% to 21.3% for the same period. Such a trend reveals the relative substitution of European products for those coming from the rest of the world.

This trend is expected to be more pronounced in view of the catch up effect on domestic economy that manifests through the increasing demands for imports of capital goods. The significant effects to ensue from the completion of the process of tariff dismantling are expected to orient trade in favour of the European Union.





Source : Office of Changes, calcul DEPF

In view of the available data, it is obvious that the potential of the association agreement between Morocco the EU is far from being fully exploited in terms of creating supplements to trade flows. Morocco’s share in EU markets still remains below those of other countries that ironically do not enjoy the same geographical and cultural proximity. By contrast, the irreductibility of imports from the EU is a major factor that accounts for the increase in supplies from Europe.

Factors such as the following could further account for this situation:

- The limited nature of trade liberalization which involved only intermediate and capital goods for which Morocco lacks competitive assets likely to increase its market share in the absence of benefits that could be drawn of European investments by way of transfer of technology.

- Moroccan exports seem to be already progressing according to their potential and would therefore require speeding up ongoing reforms particularly the ones aimed at improving institutional competitiveness and increasing exports offer.

- The increasing pressure from foreign competition which interferes with the prospect of expanding exports. This constraint is further compounded by the lack of a dynamic model of specialization that could ensure a better adaptability to the demand in European imports.

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§ The adopted integrative approach revolves around sector complementariness that yields little added value and does not require dissemination of technical progress and transfer of know how.

3.2 Net Rebound in Trade Exchange with the U.S but High Stakes

Trade exchange between Morocco and the U.S progressed at a remarkable rate a year following the agreement's taking effect. Bilateral trade has progressed by 30% and rested at an amount of MD 11.3% billion. The U.S share in Morocco's total foreign exchange has moved from 3% to 3.5% between 2005 and 2006.

Morocco's exports particularly to the U.S amount to MD 2.1 billion. They mainly involved electrical machinery, clothing, processed foodstuffs, fruits, shoes and edible nuts. On their part, Moroccan imports from the U.S.A. have progressed at a faster pace and reached MD 9.2 billion. These imports concerned aircraft, wheat, machinery with its electric components, plastic and mineral fuel.

Alongside this trade dynamics, the structural development of the Moroccan economy indicates good prospects of growth in certain sectors considered attractive by American investors. Such sectors include tourism, NTIC and most importantly petroleum prospecting.

Given its geo-strategic position and the high qualification of its manpower, Morocco could serve as a platform for putting in place ITC. The liberalization of the telecommunication sector has contributed to upgrading the quality of services and facilitated access to information networks, thereby making of Morocco a model in the region.
The agreement could potentially offer new development prospects for the Moroccan textile industry and eventually alleviate the effects ensuing from the upsurge of Asian competition in the wake of the expiry of the Shanghai Agreements between the EU and China.

Notwithstanding this positive development, Morocco's Foreign Trade Agreements with the U.S.A. carry risks for the domestic economy. The liberalization of the agricultural sector is beset with worries owing to its irreversibility. The future of this strategic sector is contingent upon the successful completion of its upgrading process. This strategy is totally different from the one adopted with the EU. On another account, the Moroccan pharmaceutical industry will be put to the test. According to companies operating in this sector, the foreign trade agreement with the U.S will inconvenience their activity on the ground that access to cheaper generic medicine will be delayed.

3.3 Morocco-Turkey Trade Exchange: Promising Prospects

The overall volume of trade exchange between Morocco and Turkey increased by 52% and rested at MD 6.6% billion in 2006 against MD 4.3 billion in 2005. This resulted in raising Turkey's share in Morocco's total trade from 1,5% to 2.1% over the two years.

The rebound in bilateral trade is due to the remarkable increase of Moroccan imports from Turkey. These imports amounted to MD 5.5 billion in 2006 against MD 3.56 billion in 2005. For their part, Moroccan exports to Turkey, although on rapid increase with 44% in 2006, rested at MD 1.1 billion against MD 773 million in 2005.

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On the whole, the two countries' pursuit of these trade dynamics should be geared towards a more profitable division of gains drawn from exchange. The upgrading of the competitive advantage of national enterprises in some sectors such as textile industry, although low-price supplies could be considered as one of the positive aspects of this agreement.

In terms of investment, there would be widespread opportunities for partnership with Turkish enterprises. As a matter of fact, Turkish business organizations participate in international call for tenders launched in Morocco. Besides, Turkish holdings are at present conducting projects especially in the sector of construction and public works.

Furthermore, Turkey's status of a candidate to the European Union is likely to galvanize its economy through the emergence of new industrial areas of specialization. The technological catch up already under way in Turkey should further stimulate sectors that are labour-intensive and of high return. Morocco would, as a consequence, provide a favourite destination for Turkish investors who could turn Morocco into a platform for exports to the U.S.A as well as other African and Arab countries, given free exchange and cooperation agreements already in force.

In addition to the transition phase that allows for a preparation of the national fabric of production for the challenges of free exchange, the benefits of coaching required by the competitive dynamics of Turkish enterprises should significantly stimulate the process of modernizing the domestic economy. Achieving this objective is nevertheless conditional upon pursuing efforts to improve Morocco's general business environment and encouraging professional associations to broaden their scope of cooperation with their Turkish counterparts.

However, if the liberalization of exchange with the Turkish partner is to breathe new force in bilateral relations, it must be stressed that a full exploitation of the potential of free exchange presupposes taking many accompanying measures relating to informational and logistic as well as regulatory and institutional aspects.

3.4 The Agadir Round: A Highly Promising Framework despite Structural Impediments to South-South Trade Exchange

It must be stressed that the value of trade exchange among the four signatory countries of the Agadir Round does not at present exceed 4% of their foreign trade. Although Morocco's foreign exchange with the three countries increased by 29% in 2006, the value of exchange remains marginal and barely exceeded MD 4.4 billion in 2006.

The share of the three countries increased only by 1,4% of Morocco's trade exchange in 2006 against 1.2% in 2005 (0.7% with Egypt, 0.6% with Tunisia and barely 0.1% with Jordan. Morocco's trade balance is in surplus with Jordan only (MD 252 million) and is at deficit with Egypt (MD 1.5 billion) and Tunisia (MD 393 million).

Morocco's weak trade exchanges with countries of the Agadir Round attests to structural limitations that need to be addressed. Production structures are not sufficiently diversified and their exports are competitive rather than complementary. Trade procedures

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and technical standards are not consistent while networks of intra-regional transportation are inadequate.

Given these circumstances, a possible option would be to reinforce intra-regional integration through strengthening cooperation among exporting enterprises to benefit from opportunities on foreign markets, particularly those of the EU.

To this effect, supporting the creation of consortiums of exporters would give small and medium size enterprises from signatory countries the right scale and the necessary qualifications to access major markets and face foreign competition. The said consortiums could provide these enterprises with the necessary financial and human resources to increase their competitiveness and strengthen their positions in buoyant markets.

The Pan-Euro-Mediterranean plurality of preliminary rules in force with the EU since August 2006 should result in considerably benefit economic players especially in terms of access to source of supplies and optimization of their costs. It will particularly enable Moroccan enterprises to optimize their imports of goods such as thread and material without limiting their access to EU markets.

However, to take full advantage of this system of preliminary rules, other Arab Mediteranean countries could adhere to the Agadir Round, particularly Algeria, a country already in an association agreement with the EU. Such an act of broadening would constitute in itself not only an additional phase in the establishment of a Euro-Mediteranean zone but also a major force in the revitalization of the Arab Maghreb Union.

4. Analysis of Tariff Protection in Morocco

4.1 Development of Tariff Protection

An estimate of the degree of tariff protection of the economy could be made on the basis of the ratio of tariff earnings (eventual net subsidies to exports as well as imports) levied on overall imports.[8] According to this indicator, tariff protection has known a steady decrease over the last years. Likewise, the rate of custom duties dropped from approximately 20% in the early 1990’s down to almost 7% in 2006.

This downturn trend was, nonetheless, slower than the one of countries such as Tunisia. In fact, the conspicuous rate of protection of the Tunisian economy, a rate which was comparable to Morocco’s in the early 1990’s, has been on the decrease since 1996 and was at less than 4% in 2005. Similarly, the downturn trend of this ratio in Egypt began in 2000 and intensified in 2005 in view of large-scale tariff reforms. [9]

[8] This ratio should include ad valorem as well as specific duties. It does not, however, give any indication to the intensity of non-tariff barriers.

[9] Within the framework of Egypt’s tax reform, a new custom tariff was adopted in 2004 with the aim of complying with WTO rules, simplifying the tariff structure and lowering the weighted tariff avearge from 14% to 9.1%. Most taxes on imports and exports have been removed. Custom procedures have also been simplified.

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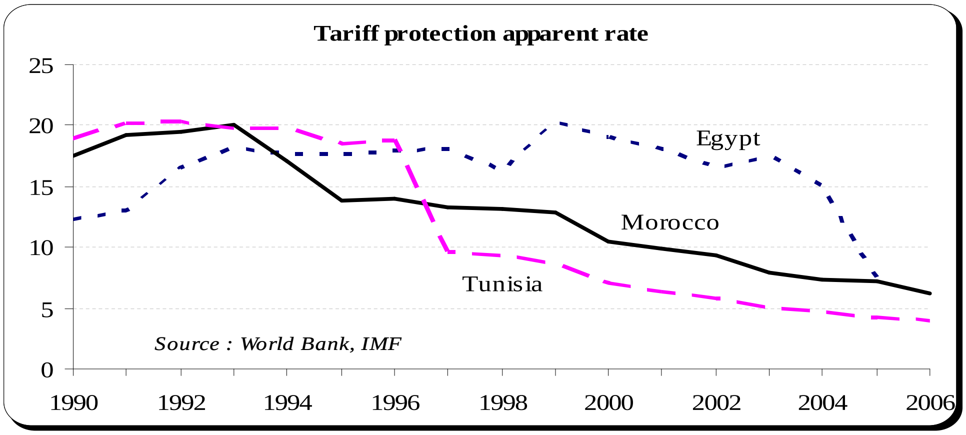

The coming into effect of the association agreement with the EU accounts for the decrease in the conspicuous tariff protection of the Moroccan economy. Such a decrease is also to be ascribed to tax incentives outlined in the investment charter. In fact, the lowering of tariff rates levied on capital goods and spare parts resulted in a shortfall of earnings in part payment of import duties.

In terms of non-weighted average tariff rates, the level of protection offered to the Moroccan economy kept decreasing. It dropped down to 19.4 % in 2005 from 33.6% in 2000. Such was the outcome of tariff dismantling and commitments Morocco made at the international level as well as tariff reforms initiated in a unilateral manner. This tariff decrease was relatively not as rapid as in Turkey and Tunisia, countries that lowered by more than half their customs duties for the same period.

Average Non-weighted Customs Duties (Manufactured Products) 1990-2005.

	1990	1995	2000	2005
Egypt.	33,5	28,3	20,5	18,9
Morocco	**23,5**	**22,8**	**33,6**	**19,4**
Tunisia	27,5	27,5	30,6	13,4
Turkey	22,7	9,0	7,1	2,4

Source : The Frazer Institute, 2007

The increase of tariff protection for the latter half of the 1990's could be ascribed to meeting commitments made within the framework of WTO agreements especially in terms of consolidating customs tariffs[10] and lifting non-tariff measures that have been converted to their equivalent and incorporated in import law. In this respect, Morocco has completed the binding list featuring all tariff lines through tariff listing of quantitative restrictions involving agricultural products.

4.2. Structure of Tariff Protection

An examination of customs tariffs of the Most Favoured Nation shows that the Moroccan economy remains relatively protected. With an average simple rate that reached

[10] A tariff consolidation is the highest level not to be exceeded by any WTO member when it levying a custom duty. Rates cannot be altered but can be deducted or removed, provided that countries affected by such action are compensated. In practice, import duties are inferior to consolidated rates.

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24.5%[11] in 2006, the level of protection is comparable to that of Tunisia but superior to those of Egypt and Turkey. In this respect, Morocco compares less favourably with countries of the Arabian Gulf, countries of South East Asia or countries of Latin America. These countries have significantly low tariff averages.

However, the average of all products conceals the fact that there are different protection policies between agricultural and manufactured products. With an average simple rate of 21.2 % for manufactured goods, Morocco draws a profit comparable to that of Tunisia with 21%. However, its industry remains less open to foreign trade compared to Turkey with 3.3% and Egypt 12.2%. As to the sector of agriculture, the level of protection remains high with tariffs exceeding 40% in the four countries and even 65% in the case of Egypt and Tunisia.

Table : Average un-weighted custom duties (NPF)

	Year *	Total of products	Agricultural products	Manufactured products
Egypt.	2005	19,3	66,6	12,2
Morocco	2006	24,5	46,2	21,2
Tunisia	2006	26,8	65,1	21,0
Turkey	2006	9,6	42,0	3,3

Sources: WTO, World Bank * the last available year

In Morocco, certain sensitive products benefit from high tariffs that exceed 50% and could even reach a 329%. Highest tariffs applying to livestock, meat, dairy products and grains, resulted from their conversion into tariffs of quantitative restrictions in the agricultural sector following the Uruguay Round agreements on agriculture. However, tariffs that effectively apply to these basic products are lower than those consolidated at the TWO.

Major agricultural products (seeds, fertilizers, phyto-sanitation products) as well as capital goods (plough and harvest machinery, irrigation and greenhouse equipment etc..) are subject only to a minimum import duty of 2.5 % and are exempt from PFI, value added tax imports as well as a special tax levied for specific purpose on imports (0.25%). Major quota of import duties vary according to the nature of imported products, with a minimum rate of 2.5% and a maximum rate of 45%. The usual rates are 2.5%, 10% and 40%. The custom tariff structure in place is laid out as follows:

§ A 2.5% deduction for capital goods within the framework of the investment charter
§ 10% applies to spare parts and accessories to capital goods (Investment Charter) as well as to some raw materials not produced locally and contraband sensitive products.
§ 17.5 % applies to raw materials not produced locally
§ 25% applies to raw materials produced locally, semi-finished products as well as to certain finished products that are not manufactured locally.
§ 2.5% and 40% applies to semi-finished products manufactured locally and 45% to finished products manufactured locally.

[11] The growing number of free exchange agreements signed by Morocco resulted in wider gap between MFN custom duties (common law regime) and preferential duties in effect in the fore- mentioned agreement

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On the whole, lowest tariffs apply to goods not manufactured in Morocco and considered crucial to the productive apparatus as well as to the upgrading of Moroccan enterprises. Products benefiting from a high level of protection are, for the most part, manufactured products that offer competition to domestic production, particularly products of the foodstuff industry, plastic, paper, textile, leather, shoes and metallic products.

Table : tariff deviation : standard deviation of enforced tariffs

	1990	1995	2000	2005
Egypt.	425,8	28,9	39,5	141,1
Morocco		**13,2**	**22,0**	**23,5**
Tunisia	10,1	11,7	12,6	26,0
Turkey	35,7	5,7	14,7	21,6

Source: The Frazer Institute, 2007

The greatest variation of the customs tariff in force, together with their high average level, exerts a restrictive impact on trade. Measured by standard deviation, tariff scattering in Morocco is still high with about 24% (40% for agricultural products and 17% for manufactured goods). Tariff scattering is also equally high in sample countries such as Egypt.

Such a situation can be accounted for by the use of gradual duties and tariff peaks that offer effective protection to domestic industry. Duties increase in accordance with the degree of product elaboration; hence the difficult access to the most transformed products. However, an undue tariff protection does not help concerned industries increase their competitiveness and better confront competition from foreign imports when foreign exchange agreements come into effect.

5. Impact of Tariff dismantling on Public Finance

The tariff dismantling process conducted within the framework of the association agreement with the EU is evident in a gradual decrease of customs duties levied on imports of industrial goods from Europe. As a matter of course, this process impacts Moroccan public finances.

When the association agreement with the EU took effect in 2000, Moroccan public finances still depended on earnings from the customs office which accounted for 3% of the EDP (Environmentally-adjusted Domestic Product), a level that is higher than the average of emerging economies. Since then, customs earnings relating to the EDP have been on a steady decrease and rested at 2% in 2006. This downturn trend in Moroccan Customs revenue was nonetheless steady throughout the period of implementation of the agreement. By contrast, Tunisia witnessed a sharp drop in its customs earnings at the beginning of the dismantling period.

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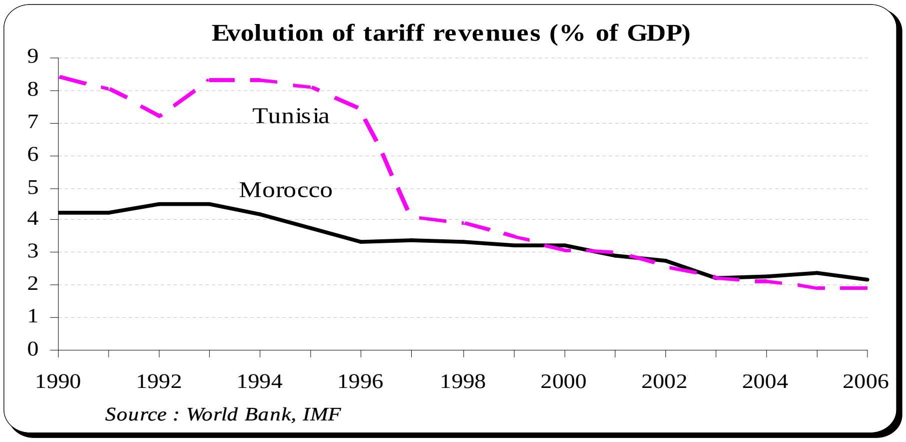

The coming in effect of the association agreement in Morocco resulted in the shortfall of earnings from customs duties that gradually increase over the years. These duties which accounted for 0.2% of the EDP in 2000 moved to 1% in 2006. Following this shortfall, customs earnings represented no more than 10% of tax revenue in 2006 against 16% in 2000. This decrease can also be ascribed to the remarkable improvement of other tax earnings that went up from 14% to 17.6 % of the EDP over the same period.

Table : Trend of budget receipts (in % of FIB)

	2000	2001	2002	2003	2004	2005	2006
Custom duties	2,9	2,9	2,7	2,2	2,3	2,4	2,1
Shortfall in custom earnings	0,2	0,3	0,3	0,5	-	0,8	1,0
Tax revenue (custom duties not included)	14,0	15,2	15,3	15,3	15,5	16,9	17,6
Budget deficit	-4,7	-2,4	-4,1	-3,1	-3,0	-4,0	-1,7

Source: Ministry of Economy and Finance

On the whole, the budget deficit has been under control over the last few years on account of the good record performance of non-custom tax earnings as well as the favourable trend of the national economy which largely made up for the loss in customs earnings.

The situation of public finances raised concern with a budget deficit exceeding 4% of the GDP in 2000. Based on the fact that customs taxes make up a good part of earnings that go towards public finances, Morocco has made great effort to gear its budgetary resources to internal activities. To this effect, it conducted a radical tax reform that aim, among other things, at rationalizing and expanding the tax base as well as consolidating its mechanisms of control.

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Conclusion

Efforts made to liberalize trade at the bilateral and regional levels have undoubtedly enhanced Morocco’s foreign trade flows and strengthened its foothold in world economy. Such an orientation should not rule out the necessity to pursue multilateral liberalization in the framework of WTO. This organization undeniably offers economic opportunities such as taking into account requirements as well as imperatives for development in emerging or developing countries like Morocco.

Moreover, Morocco’s policy of diversifying economic alliances and partnerships does not seem to have reached the culminating point to ensure genuine redistribution of foreign trade among key partners. The EU’s preponderant weight is obviously not expected to know any significant change at least for the short term. This is not surprising in view of the fact that the regional South-South agreements revolve around the association agreement which remains by far the driving force of regional integration.

In spite of gradual trade liberalization, there still remain high level tariffs especially in sectors where imports could offer competition to domestic production. This makes the margin of tariff reduction appear significant mainly in sectors of intermediary products or consumer goods. The scattering of tariff layout remains rather high; which introduces significant changes to the structure of incentives with a negative impact in terms of allocation of resources.

On the whole, the opening of the Moroccan market remains selective in the sense that partner countries can market their products and benefit from attractive import tariffs whereas exporters from third party countries are still subjected to high MFN (Most Favoured Nation) rates. This leads to a diversion of trade flows of more efficient producers from third party countries to less efficient producers from partner countries. As a result, Morocco sustains a shortfall of earnings without the consumers’ benefiting from good bargains.

The reconciliation between the benefits of globalization and the cost of opening up lends itself more to an exercise of maximization. The initial impact of foreign exchange on the national economy is not terribly negative. Nonetheless, the situation calls for boosting exports and turning them into a pillar of sheer growth. What must be addressed, therefore, is the problematic of competitiveness of exports on offer. A proper solution of this problematic must go beyond the simplistic cost-based logic and encompass more structuring dimensions such as modernizing institutions, recasting specialization plans in the interest of profitable fields in international trade and promoting foreign investments that potentially generate transfers of technology and know how.

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