



Trade Policy in Morocco: Taking Stock and Looking Ahead

Edited by Pierre Sauvé and Uri Dadush



TRADE POLICY IN MOROCCO: TAKING STOCK AND LOOKING AHEAD

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WORLD BANK GROUP



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Siwook Lee

Foreword

The broad thrust of Morocco's trade and industrial policies over the last thirty years has been to anchor Morocco into world flows of goods, services, and cross-border investment. Despite the challenges posed by the COVID-19 pandemic, rising international prices, and a complex geopolitical environment, Moroccans continue to derive significant benefits from their economy's openness. These include improved consumer choice and welfare, the growing insertion of Moroccan firms into cross-border production networks, and robust export and investment-attraction performance. Morocco has made important strides in reducing poverty and features consistently as one of the better-performing and more stable economies in its part of the world.

But, as underlined in its recent quest for a New Development Model, Morocco can do better. Moroccans want to see their living standards converge faster with those of their neighbors to the north. After the 2008-09 Global Financial Crisis, Morocco's economy slowed sharply, and its fiscal and current account balances have become more precarious. The purpose of this volume, prepared jointly by analysts at the Policy Center for the New South and the World Bank—and responding to requests from the Moroccan authorities—is to explore how Morocco's trade and industrial policies can better capture the opportunities offered by international markets.

The central message of the analyses in this volume is that Morocco can do much more to fully realize its trade potential. Strengthening the competitiveness of Morocco's exporting and import-competing firms lies at the core of the efforts needed, requiring reforms and investments that go beyond the narrow realm of industrial and trade policies. Some of these reforms require time, such as improving the skills base of the Kingdom's labor force. Other reforms can be implemented faster, such as improving the environment and incentives for private investment, and ensuring that the exchange rate remains competitive and adjusts more flexibly to domestic and external shocks.

Industrial, trade and investment policies play a crucial role. This volume emphasizes the importance of paying greater attention to the export potential of Morocco's vibrant service sector, the growth of which is the main source of the Kingdom's job creation. Morocco's agricultural exports have also performed especially well in recent years, and there is much potential to diversify and grow agricultural exports to new destinations, while adopting greener energy sources and water-saving production methods.

As part of these efforts, new trade agreements are needed to deepen and broaden Morocco's two-way ties with the European Union, its leading trade and investment partner. Large parts of the European market, beyond France and Spain, remain largely untapped by Moroccan exporters. Despite recent progress, particularly in services, Morocco's penetration of African markets, which should be boosted by the entry into force of the African Continental Free Trade Agreement (AfCFTA), remains below potential. Asian nations now constitute the world's largest and fastest growing trading region, and Morocco's trade ties with leading players in the region is heavily one-way, importing much while exporting little. Though it may be too soon to envisage formal trade agreements with partners in the region, the time is ripe for greater export-promotion efforts by Moroccan agencies and the Kingdom's largest private firms. In relation to this, efforts are needed to strengthen the institutional capacity and voice of Morocco's trade-policy machinery.

Giving a greater voice to Moroccan exporters and strengthening the capacity of agencies involved in promoting trade will also reduce the risks of backsliding. Though no wholesale shifts in Morocco's trade policy stance have materialized, specific policy measures have been adopted to restrict imports from nations outside Morocco's extensive network of preferential trade agreements. These carry genuine risks. An inward-looking turn in Moroccan trade policy would run counter to the recently adopted New Development Model, and its emphasis on accelerating the pace of structural transformation by boosting the contestability of markets and addressing entrenched rent-seeking conduct.

Both are goals that policies engaging world markets can help address. As argued in this publication, Morocco is better served by continuing to pursue open trade policies, and by reinforcing its efforts to build a more competitive, inclusive and resilient economy.

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List of acronyms

ADA	Agriculture Development Agency
AVE	Ad-Valorem Equivalent
AfCFTA	African Continental Free Trade Area
AMDIE	Morocco's Investment and Trade Agency
ANPME	National Agency for the Promotion of Small and Medium Sized Enterprises
ASEAN	Association of Southeast Asian Nations
BOP	Balance-Of-Payments
CAFTA	Comprehensive and Integral Free Trade Agreement
CBAM	Carbon Border Adjustment Mechanism
CCI	Commission consultative des importations
CGC	Chantiers Génie Civil
CGEM	General Confederation of Moroccan Enterprises
CMPE	Moroccan Center for the Promotion of Exports
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
CRI	Regional Investment Center
CRM	Customer Relationship Management
DEPF	Direction des Etudes et des Prévisions Financières
DTA	Digital Trade Agreement
EACCE	Etablissement Autonome de Contrôle et de Coordination des Exportations
ECOWAS	Economic Community of West African States
EFTA	European Free Trade Association
EU	European Union
FDI	Foreign Direct Investment
FTAA	Free Trade Area of the Americas
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GCI	Global Competitiveness Index

GDP	Gross Domestic Product
GFC	Global Financial Crisis
GVC	Global Value Chain
HACCP	Hazard Analysis and Critical Control Points
HCP	High Commission for Planning
HS	Harmonized System
HS2	Harmonized System 2-digit code
HS4	Harmonized System 4-digit code
ICT	Information and Communication Technology
IFD	Investment Facilitation for Development
IIMV	India, Indonesia, Malaysia, and Vietnam
ILO	International Labour Organization
IMF	International Monetary Fund
IPPC	International Plant Protection Convention
IT	Information Technology
ITC	International Trade Centre
JSI	Joint Statement Initiative
KOTRA	Korea Trade-Investment Promotion Agency
LDCs	Least-developed countries
LPI	Logistics Performance Index
MAEC	Ministry of Foreign Affairs and Cooperation
M&A	Mergers and Acquisitions
MEN	Middle East and North Africa
MFN	Most Favored Nation
MFA	Multi-Fibre Agreement
MIC	Ministère de l'Industrie et du Commerce (Ministry of Industry and Trade)
MOIT	Ministry of Industry and Trade
MOT	Ministry of Trade
MPE	Materials-Parts-Equipment
MRLs	Maximum residue limits

MSTI	Main Science and Technology Indicators
NGO	Non-Governmental Organization
NTMs	Non-Tariff Measures
OCE	Marketing and Export Office
OFDI	Outward Foreign Direct Investment
OFC	Office des Changes
OFEC	Office of Fairs and Exhibitions of Casablanca
ONSSA	Office National de Sécurité Sanitaire des Produits Alimentaires
OECD	Organization for Economic Co-operation and Development
PAFTA	Pan-Arab Free Trade Area
PPB	Parts per Billions
PTA	Preferential Tariff Agreement
PTAs	Preferential Trade Agreements
QI	Quality Infrastructure
R&D	Research and Development
RCA	Revealed Comparative Advantage
REER	Real Effective Exchange Rate
SAP	Structural Adjustment Program
SMAEX	Société Marocaine d'assurance à l'exportation
SMEs	Small and medium-sized enterprises
SOEs	State-Owned Enterprises
STC	Specific Trade Concern
SPS	Sanitary and Phytosanitary
STRI	Services Trade Restrictiveness Index
TBT	Technical Barriers to Trade
TFA	Trade Facilitation Agreement
TiSMoS	Trade in Services by Mode of Supply
TiVA	Trade in Value Added
TRIPS	Trade-Related Aspects of Intellectual Property Rights
TSI	Trade-Support Institution

UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UK	United Kingdom
US	United States
USDA	United States Department of Agriculture
USMCA	United States-Mexico-Canada Agreement
USTR	U.S. Trade Representative
U-Turn	Act on Support for Companies Returning to Korea
WEF	World Economic Forum
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

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1

WHERE NEXT FOR MOROCCAN TRADE POLICY?

Uri Dadush & Pierre Sauvé¹

Background

This study of Morocco's trade policy comes at a time of decelerating growth that has prompted considerable debate about the future of the Kingdom's development model and the role that trade and investment policy should play. The economic and health damage wrought by the COVID-19 pandemic, and the mounting uncertainty stemming from more recent geopolitical developments, add urgency to such discussions.

Morocco has made significant economic progress over the past 20 years, witnessing a sustained rise in living standards. Per-capita income doubled between 2000 and 2019, while the poverty rate fell to one-third of its 2000 level. Literacy rates and health outcomes both improved over the period, along with access to basic infrastructure such as water and electricity. There were also marked advances in connectivity-boosting trade infrastructure. Labor productivity also improved, driven by a high share of public capital accumulation, but the pace is slowing, and there is significant scope for improving efficiency (Lopez-Acevedo et al, 2021).

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Despite such progress, Morocco's growth model was exhibiting worrisome signs prior to the COVID-19 pandemic, raising doubts over its sustainability and stoking fears that the country could be at risk of falling into a middle-income trap characterized by diminishing returns to capital, sustained weakness in human capital, mismatches in labor market allocation, and financing constraints. Moroccan growth has not proven sufficient to address the country's unemployment challenges, and to resolve persistent underemployment (marginal, part-time, and low productivity jobs) in rural areas, lagging regions, and in the informal urban sector. Morocco's growth trajectory will be difficult to maintain without higher productivity gains in the future, a challenge to which trade policy must respond, alongside complimentary flanking policies. Weaknesses in Morocco's trade integration relate to inadequate levels of private investment and the weaker dynamism of home-grown exporters, alongside other constraints including skills shortages and weak trade policy formulation. A greater focus on boosting export competitiveness appears warranted, with the private sector playing a lead role as an engine of growth and employment creation.

This volume, written by experts from the Policy Center for the New South and the World Bank, asks how Morocco's trade policies can be deployed to maximum advantage in the context of a challenging international environment. In doing so, it responds to specific requests from the Government of Morocco for advice on frontier issues in trade and investment governance. The volume also addresses a range of trade-policy challenges identified by the Policy Center for the New South and the World Bank, for which deeper analysis appears warranted.

Key takeaways

Three broad lessons emerge from the body of work contained in this volume. First, a sustained commitment to progressive trade and investment liberalization has been a hallmark of Morocco's trade and industrial policies over the past three decades. Such a policy focus has been, and remains, a sound one, and Moroccans continue to derive large benefits from it. Morocco has until recently shown a sustained commitment to open markets through the adoption of unilateral (pro-competitive) reforms, and by concluding preferential trade and investment agreements with a number of key partners over the past two decades, including the European Union, the United States, Turkey, and other Arab States. Morocco has also played a vocal role in the context of negotiations on the African Continental Free Trade Area (AfCFTA), particularly in services.

The benefits flowing from Morocco's commitment to market openness include improved consumer choice and welfare, and a major upgrading of the country's trade-related infrastructure, epitomized by the port upgrading at Tanger Med, the country's expanding motorway and high-speed train networks, and its increased digitization of customs procedures. By lowering trade costs, such reforms have favored the growing insertion of Moroccan firms into cross-border production networks, and have led to a marked rise in the share of exports of medium- and higher- technology products, notably in automobiles, avionics, and financial services. Reforms have also bolstered the Kingdom's attractiveness to foreign investors. The broad thrust of Morocco's trade and industrial policies in recent years has been to anchor the Kingdom into world flows of goods, services, and cross-border investment. As Table 1 shows, doing so has increased the country's reliance on international trade, in both absolute terms and relative to its peers.

Table 1. Morocco and its Peers: Trade* as a Share of GDP, 1990-2020

Country/Region	1990	2000	2010	2020
Morocco	54.6	59.2	75.2	78.6
Egypt	52.9	39.0	47.9	34.0
Tunisia	94.2	82.6	104.1	107.9**
MENA (excl. high income countries)	49.3	58.4	62.9	49.2
Sub-Saharan Africa (excl. high income countries)	42.0	61.3	61.6	45.3

*: Exports plus imports

** : 2019 data

Source: World Bank, World Development Indicators.

However, while trade volumes have increased, they have yet to translate into the hoped-for major acceleration of income growth. Nor has Morocco witnessed a significant geographical diversification of its trade patterns, even though its export basket shows signs of diversification. Trade with the EU continues to absorb two thirds of Moroccan exports, and EU investors supply the bulk (close to 70%) of the Kingdom's inward foreign direct investment. With the exception

of its free trade ties with the United States, concluded in 2005, Morocco's trade agreements—including that with the EU—are typically shallow in character, focusing exclusively on merchandise trade and eschewing the broader set of disciplines associated with global value chain (GVC) led trade and investment as well as services, for which Morocco's trade balance has produced surpluses equal to two-fifths of the country's structural merchandise trade deficit in recent years. While Morocco's trade ties with China and India, two countries with which it has not concluded preferential trade agreements (PTAs), have grown faster than with the U.S. over the last decade, both trade relationships involve a very narrow range of weakly transformed exports (e.g. mostly phosphates).

A second core lesson is that evidence of a more restrictive bent in Moroccan trade policy, both prior to and in the wake of the COVID-19 pandemic, warrants policy attention. While the recent past has not witnessed wholesale shifts in Morocco's trade policy stance, policy measures with a restrictive or import-inhibiting bent have recently been adopted². These include a decision to raise applied most-favored nation (MFN) tariffs on finished goods from 25% to 40%; repeated calls to deploy contingent protection instruments in response to Morocco's bilateral trade deficit with Turkey; a failure to advance negotiations with the EU on a comprehensive trade agreement; and repeated calls for increased protection in sectors ranging from garments to steel. Meanwhile, Morocco's own non-tariff measures, alongside those applied in markets such as Turkey and the EU, such as product standards and sanitary and phytosanitary requirements, also weigh on the country's export growth.

Care must be taken in properly assessing the risks associated with such measures. An inward-looking turn in Moroccan trade policy would run counter to the findings of the recently completed 'New Development Model', and its emphasis on accelerating the pace of structural transformation by boosting the contestability of markets and addressing entrenched rent-seeking conduct³. Policies engaging world markets can help address both goals. As argued in this report, Morocco would be better served by continuing to pursue open trade policies, and by reinforcing its efforts to build a more competitive economy.

2. Morocco's MFN Tariffs—which apply chiefly to trading partners in Asia—were increased to 30% in January 2020 and to 40% in July of the same year. Some of the tariff reductions agreed under the Morocco-Turkey Free Trade Agreement were also reversed. And mounting references to 'national preferences' have surfaced in official communications, prompting the adoption of ambitious import-substituting measures. Although the recent tariff hikes affect less than 20% of merchandise imports, and comply with Morocco's WTO and PTA commitments, they increase the Kingdom's dependence on the EU market by raising EU preferences.

3. Such concerns were diagnosed in a Royal Commission report on Morocco's New Development Model. See Royaume du Maroc (2021)..

A third key insight is that Morocco has yet to fully realize its trade potential. Efforts are needed to improve the competitiveness of exporting firms; support the Kingdom's vibrant service sector, including in the digital realm; promote the growth of greener agricultural exports; deepen and broaden Morocco's two-way ties with the EU, its leading trade and investment partner; derive greater benefits from the Kingdom's network of existing preferential trade agreements, notably on the African continent; and do a better job at trade and investment promotion in diversifying Moroccan exports. Steps are also needed to strengthen institutional capacity and the voice of the Kingdom's trade policy machinery.

Structure of the book

This volume has three parts. Following this chapter's summary of the main findings, Part I diagnoses four key elements of Morocco's trade performance, focusing in turn on the relationship between trade and industrial policies (Chapter 2), prospects for stepped-up trade performance and economy-wide reforms in agriculture (Chapter 3), and services (Chapter 4), and strengthening the institutional anchoring of Moroccan trade policy (Chapter 5).

Part II addresses four topics on which the Government of Morocco specifically solicited the Policy Center/World Bank team's diagnostic insights. These concern: an assessment of non-tariff measures weighing against Moroccan producers in key export markets (Chapter 6); investigating the case for new preferential trade partnerships with India, Indonesia, Malaysia, and Vietnam—the so-called IIMV grouping (Chapter 7); assessing Morocco's readiness to engage in negotiations on e-commerce and digital trade, particularly in the context of the African Continental Free Trade Agreement (AfCFTA) (Chapter 8); and the impacts likely to flow from Morocco's participation in ongoing Joint Statement Initiative (JSI) negotiations among WTO Members on Investment Facilitation for Development (IFD) (Chapter 9).

Part III offers Korean perspectives on two core challenges in contemporary Moroccan trade governance: the institutional setting of Korean trade policy and the factors weighing on the choice of preferential trade partnerships (Chapter 10); and lessons emerging from Korea's management of COVID-19 induced shocks to key supply chains (Chapter 11). **Korea's highly successful trade-led economic trajectory, and the country's ability to avoid the middle-income trap through sustained industrial, infrastructural, connectivity, and human capital upgrading, offer important lessons for a highly trade-dependent country like Morocco.** So too does Korea's success in diversifying both the mix and

destination of its exports, and in forging deep trade and investment ties with a geographically diverse set of partners.

Part I:

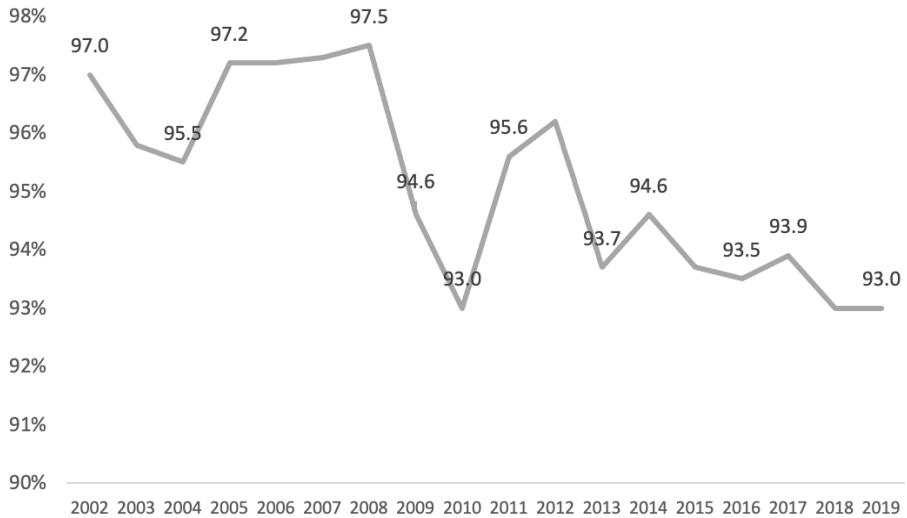
Trade and Industrial Policy Linkages

Chapter 2, entitled **Trade and Industrial Policies in Morocco**, and co-authored by PCNS Senior Fellows Abdelaaziz AitAli and Uri Dadush, recalls how Morocco's economic policies are in flux in the wake of the COVID-19 crisis, and as the economy confronts the twin challenge of many years of slow growth and persistent income inequality. Morocco is hardly alone in revisiting its approach to globalization. Concerns over security of access to medical goods and vaccines in the context of the COVID-19 pandemic have strengthened calls for increased self-reliance, reshoring, and near-shoring. The chapter asks whether trade and industrial policies are working, and how their designs might be improved.

Two common fallacies relating to trade policy and trade liberalization in Morocco's public discourse have translated into calls for sub-optimal policy choices. A first fallacy is that the Kingdom's persistent goods trade deficit—and with it, slow growth and unemployment—is the result of trade liberalization. In fact, our analysis shows that three other factors have played a major role in the deterioration of Morocco's external balance in recent years:

1. A decline in domestic savings, mainly due to a widening fiscal deficit;
2. High and volatile oil prices not compensated or offset by exchange rate movements⁴, or by sufficient changes in macroeconomic policy. Morocco's current account deficit is closely associated with the country's high dependence on imported fossil fuels, which account for 93% of its primary energy supply (Figure 1);
3. Insufficient progress in improving the economy's competitiveness and outward orientation.

4. Energy subsidies may have delayed the adjustment to higher oil prices.

Figure 1. Morocco: Energy Dependency Ratio*, 2002-20, in Percentages

* : Share of energy imports in aggregate consumption

Source: Ministère de la Transition Ecologique et du Développement Durable.

A second fallacy is that trade ties with the EU are hurting Morocco. Contrary to the views of many critics, the data show that Morocco has derived considerable benefits from the Association Agreement it signed in 2000 with the European Union, by far the Kingdom's largest trade and investment partner. This is so despite the agreement's limitations, including its omission of services trade. The bilateral merchandise trade balance with the EU omits Morocco's remittances from the EU and its positive services trade balance (mainly tourism). Such a metric is not—by itself—an accurate indicator of the state of the economic relationship. Moreover, the changes in the composition of Morocco's exports to the EU in recent years are a reason for optimism, as exports have increased both in terms of diversity and technological sophistication, a process that was clearly helped by the Preferential Trade Agreement (PTA), and by increased inflows of EU foreign direct investment.

Despite recent progress in important export sectors, including agriculture, aircraft parts, and automobiles, Morocco is not sufficiently exploiting the potential of vast EU markets to which it has largely unimpeded access and efficient logistical ties. This is most evident in the geographical distribution of

Moroccan exports, close to three-fifths of which were directed at France and Spain in 2019, economies accounting for less than 30% of euro-area GDP. Large markets, such as those of the United Kingdom (with which Morocco concluded a trade agreement following Brexit), Germany, Italy, and the Nordic countries remain little addressed by Moroccan exporters.

Under the EU's neighborhood policies, an opportunity exists to negotiate a deep and comprehensive agreement with Morocco's leading partner. An early resumption of such negotiations would likely bring substantial benefits, especially if Morocco were able to improve its access to EU agricultural markets by achieving tariff and tariff-rate quota reductions for fruits and vegetables, ease the mobility of its workers and skilled professionals, and remove various non-tariff impediments to trade.

Three reform challenges, all of which lie outside the traditional remit of trade policy and are not addressed specifically in this volume, are key to improving Morocco's trade performance. The first concerns upskilling the Moroccan labor force and increasing the labor-market participation of women, an area in which the Kingdom has significant margin for improvement, especially when compared to its peers, including in the MENA region. Both the lack of upskilling and low participation rates are widely acknowledged impediments to sustained productivity gains and value creation, which have been addressed extensively in recent studies (World Bank and WTO, 2020; Lopez-Acevedo et al, 2021).

The second challenge concerns the overall incentive regime potentially affecting tradable products. Morocco's macroeconomic policies have provided stability, which is a major achievement for the country, including in comparison to many middle-income peers. However, looking ahead, it will be important to ensure that the Kingdom's economic policies do not tilt incentives unduly towards non-tradeable sectors, such as construction and real estate, at the expense of manufacturing, tradeable services, and agricultural sectors such as fruits and vegetables. Morocco's large volume of private remittances, which have reached 6.5% of GDP in recent years, arguably adds to the forces weighing on Morocco's traded sector though the effect on the real exchange rate.

The third challenge relates to Morocco's response to climate change and the contribution trade can make to mitigation and adaptation efforts. The recurring droughts the Kingdom confronts dampen agricultural output and make farm incomes volatile and unpredictable from one year to the next. Such trends provide a stark reminder of the importance for Morocco of contributing to the global effort to contain carbon emissions and limit the rise in global temperatures, whilst pursuing smart agricultural practices. Adoption of green

technologies is needed in Morocco as elsewhere, and Morocco has committed to such a course as a signatory of the Paris Agreement on Climate Change. Moreover, given Morocco's abundant capacity to deploy solar and wind resources in power generation, and its proximity to Europe, decarbonization can represent a significant export opportunity for Morocco. By accelerating its adoption of green technologies, Morocco can avert significant threats, notably those arising from the growing incidence of carbon taxes on imports⁵, and also gain a competitive advantage over countries that lag in this regard.

Boosting Agricultural Trade

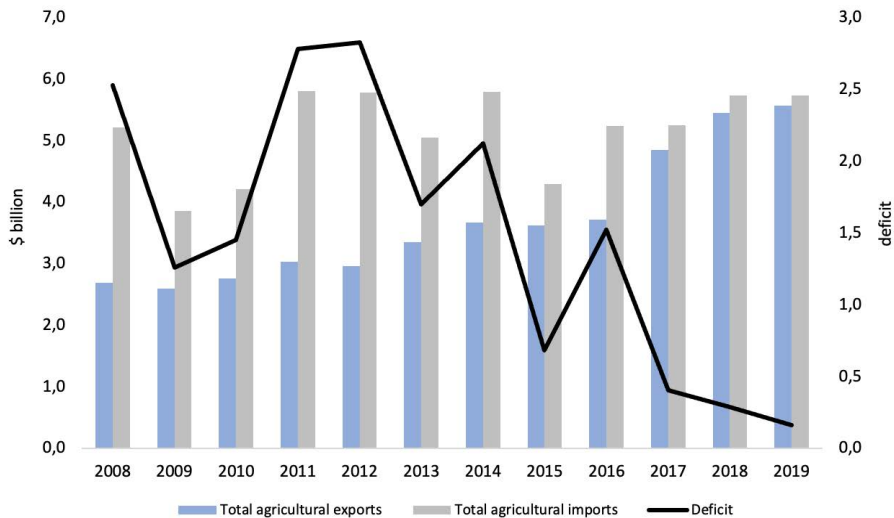
Chapter 3, entitled **Unleashing the Potential of Agricultural Trade in Morocco** and co-authored by Irina Klytchnikova and Aleksandar Stojanov of the World Bank and by the PCNS's Fatima Ezzarha Mengoub, provides a reminder that agriculture remains a significant source of economic growth in Morocco, even as the sector continues to shed jobs as productivity improves, urbanization advances, and workers move into higher-wage occupations.

Agriculture are crucial for Morocco's overall trade performance despite the country's status as a net food-importing country. The share of agricultural products in total exports has risen steadily in recent years, from 16.3% in 2010 to 19.9% in 2019. Agricultural exports grew by 7.3% on average annually over the past decade, while imports increased by 3.1% per year, contributing to a reduction in the Kingdom's agricultural trade deficit (Figure 2). Over four-fifths (81.6%) of Morocco's agricultural exports go to trading partners with which the Kingdom has negotiated preferential terms of access, underscoring the importance that trade policy plays in boosting prospects for the sector.

The bulk of Morocco's agricultural exports—about 67%—is directed to the European Union, whose agricultural trade policies, especially in the context of the new European Green Deal and the EU Farm to Fork Strategy, are of paramount importance for the future of Moroccan agriculture.

5. The World Bank Group's ongoing Country Climate Development Report (CCDR) on Morocco will feature an assessment of the potential impacts on Moroccan trade of carbon border adjustment measures (CBAMs), notably that of the European Union, the Kingdom's leading trading partner.

Figure 2. Evolution of Morocco's Agricultural Imports and Exports, 2008-19



Note: Excluding fish products.

Source: World Bank calculations using data from World Integrated Trade Solution database (2020).

Morocco has been especially successful in growing its traditional agri-food exports, outperforming benchmark nations in Latin America, Asia, and sub-Saharan Africa. Morocco ranks among the world's top five exporters of tomatoes, is the biggest player in the global green beans market, and a significant exporter of other vegetables, citrus, strawberries, and other fruits and berries. At the same time, imports of agricultural products, especially cereals, are critical for food security given Morocco's volatile production and its dependence on rainfall for irrigation⁶. Similarly to many North African neighbors, the armed conflict in Ukraine has shone light on a key aspect of Morocco's food-related vulnerability.

6. Morocco's agricultural imports remain highly variable from year to year and depend on levels of domestic agricultural production, which in turn depend heavily on rainfall levels. This situation increases Morocco's vulnerability to international market fluctuations, especially since close to a third (30%) of the country's agricultural imports consist of cereals, one of Morocco's staple food products, which is critical for the Kingdom's food security.

Much like the Kingdom's overall trade prospects, the full potential of Morocco's agricultural and food exports has yet to be realized. Further diversification can take place either through the expansion of value chains or through penetration of new markets to which preferential access is secured, such as those of Central and Eastern Europe, the Gulf countries, and sub-Saharan Africa under the AfCFTA. Diversification can also result from the emergence of new products that support the growing global demand for foods associated with changing lifestyles and consumption habits, such as healthy and green products (e.g. nuts and processed fruits and preparations).

The uneven pace of recovery from the COVID-19 pandemic will likely weigh on the growth of Morocco's traditional agricultural exports. This makes it more urgent to scale-up domestic capacity, further improve logistics and transportation networks, and strengthen product quality, food safety, and traceability systems. Product innovation, access to niche markets and the development of high value-added agri-food products are the keys to Morocco's diversification of agricultural exports in the long term. At the same time, the severe scarcity of water and increasing frequency of drought years linked to climate change limit Morocco's potential as an agricultural producer. Water availability must form a central part of future agri-export promotion plans, including the sensitive question of water allocation for exports, and for domestically oriented production in drought years.

Morocco's commitment to promoting climate-smart and digitally enhanced agriculture through the Green Generation Strategy 2020-2030 (GGS) offers an opportunity for the Kingdom to position its agri-food sector in a context where sustainable, low carbon, organic, and/or certified agri-food products may gain it a competitive edge in European markets. Demand for healthy, sustainable, and low carbon agri-food products is on the rise globally. Sustainable, low carbon products will likely offer Morocco major growth opportunities. Moving in this direction requires strong inter-agency collaboration mechanisms linking the Ministry of Agriculture, Morocco Foodex, the Ministry of Industry, Trade and the Green and Digital Economy, and Portnet. Moroccan stakeholders must also work closely with relevant agencies at home and in destination markets, and with domestic firms, to ensure fuller compliance with evolving sanitary and phytosanitary standards⁷.

7. In recent years, Morocco has improved its domestic policies and quality infrastructure related to SPS standards and aimed to go paperless by the end of 2021. Streamlining SPS procedures at domestic borders will facilitate the process for domestic producers who need to import inputs, and for foreign partners who export to Morocco. Morocco could use this as a leverage in its negotiations for SPS controls in new trade agreements.

Harnessing the Trade and Development Promise of Services

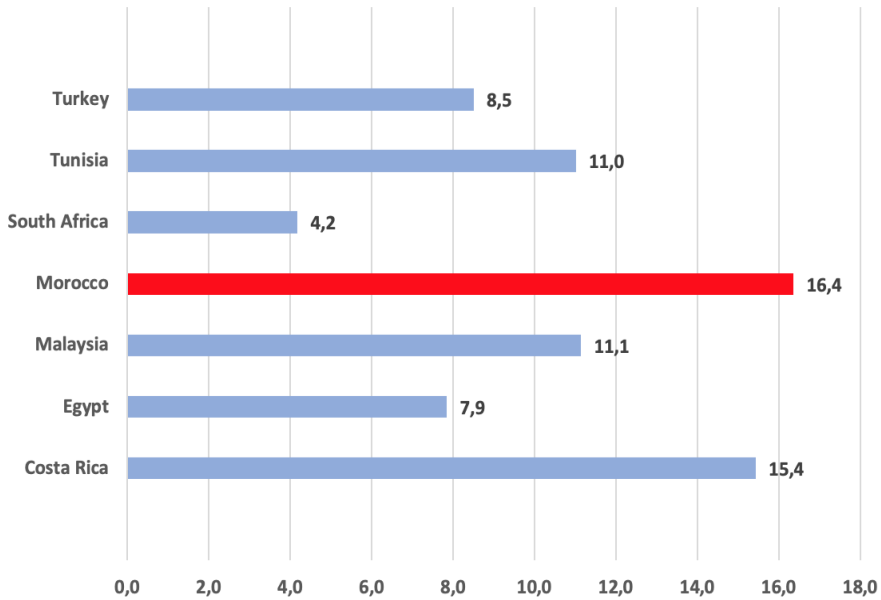
Chapter 4 by Pierre Sauvé of the World Bank and Oumayma Bourhriba from the Policy Center for the New South explores the central contribution of services to Morocco's trade performance, and assesses the scope that exists to further grow and diversify the Kingdom's services exports. Entitled **Boosting Morocco's Services Trade Performance**, the chapter contends that greater efforts are needed to harness the full potential of Morocco's service sector as a source of jobs, exports, and inclusive growth. Morocco's diverse service economy has arguably obtained less focus in trade and industrial policies than the manufacturing sector, long a specific strategic focus for the Kingdom. As in many countries, such neglect also owes to the institutional dispersion of regulatory authority common to the service economy, which often translates into weak inter-agency coordination and inadequate policy dialogue with the public and business stakeholders, potentially inhibiting reforms informed by economy-wide considerations.

The service sector is the main source of growth for the Moroccan economy, contributing three-fifths of aggregate output in recent years. The sector is also the Kingdom's leading source of employment, particularly for female workers⁸, supplying just under half (47%) of formal-sector jobs at year-end 2020 and close to nine in ten new jobs in recent years. Addressing Morocco's chronic underemployment problem and the shift of jobs out of agriculture cannot be done without growth in the service sector.

Trade in services is of central importance to Morocco's external accounts, producing surpluses equal to two-fifths of the country's structural merchandise trade deficit in recent years. The world's forty-sixth largest exporter of commercial services in 2020, the Kingdom's trade performance in services places it second on the African continent, and fifth within the MENA region. The Kingdom's services exports reached 19.4 billion in 2019, accounting for 40% of total exports and contributing 16.4% of aggregate output. Figure 3 shows that Morocco's export performance in services places it ahead of comparator peers.

8. A particular Moroccan weakness relates to the labor force participation rates of female workers which, while higher in services (34.6%) than for the economy as a whole (24.3%), remains significantly below world, regional (sub-Saharan Africa and MENA), and Arab world averages. Such a suboptimal use of human capital can prove highly prejudicial to service sector growth, and to female empowerment and attendant socio-economic gains more broadly (World Bank and WTO, 2020).

Figure 3. Morocco and Its Peers: Services Exports as a Share of GDP, 2019 (%)



Source: World Bank, World Development Indicators.

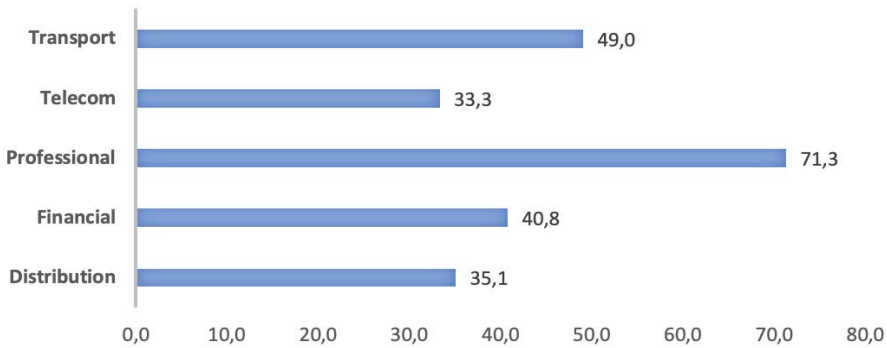
While Morocco's export propensity in services is high relative to its income level, the Kingdom's services export basket shows a high share of traditional services, such as travel and transportation, which account for just under half (47%) of total exports of commercial services. The share of modern services, such as business, professional, or ICT-related services has nonetheless witnessed sustained growth in recent years, accounting today for two-fifths (41.4%) of total services exports. The COVID-19 pandemic has provided a significant boost to the country's nascent e-commerce platforms and to digital services exports, for which Morocco has harnessed its sophisticated regulatory ecosystem and vibrant private sector to rank among the top two African suppliers of ICT and digitally-deliverable services (UNCTAD, 2020). Meanwhile, the Kingdom's emergence as a significant outward investor, particularly on the African continent, attests to competitiveness gains and export potential in a range of modern services, including finance (retail banking and insurance), telecommunications, and professional services.

A closer look at Morocco's global ranking on a number of key governance indicators of relevance to service sector performance suggests that significant scope exists to enhance the regulatory and business ecosystems for services, and to align them more closely to international best practice⁹. A sustained commitment to a range of governance reforms, ranging from improvements in regulatory and institutional performance, the promotion of greater domestic market contestability, supplying larger cohorts of knowledge workers through improved tertiary education and vocational training, enhancing logistics performance, empowering female workers and entrepreneurs, and stepping-up trade and investment promotion efforts, can all be expected to yield significant gains in efficiency and inclusiveness, while boosting the Kingdom's trade and investment performance in the sector.

Among its peers in Africa and (especially) the MENA region, Morocco maintains a relatively open trade and investment regime for services. Still, Morocco's applied regulatory policies in services leave ample room for further market opening, whether pursued autonomously or through new and/or enhanced commitments within its network of preferential trade agreements and at the World Trade Organization. Addressing sectors with above-average levels of policy restrictiveness would help improve Morocco's business environment (Figure 4).

9. Of the 26 governance indicators covered by Table 9, Morocco's performance ranks above the median in only five categories. These are: % of ICT exports in total exports (30th); education (56th); cultural and creative services exports (57th); business environment (59th); and ecological sustainability (62nd). While the Kingdom's 77th rank on the Global Innovation Index marks a commendable 17-step improvement over the level a decade earlier, its overall performance on a number of key service-related metrics offers significant scope for improvement. This is notably the case for institutional characteristics linked to government effectiveness (82nd rank) and the regulatory environment (86th), where Morocco remains well below the world median. Morocco also scores poorly on key metrics governing the supply of human capital, with weak rankings on tertiary education (91st), the supply of knowledge workers (97th), and the level of knowledge-intensive employment (115th), all of which are key to fueling the growth of modern services.

Figure 4. Morocco: Services Trade Restrictive Index, Key Sectors, All Modes, 2020



Source: World Bank, Services Trade Restrictiveness Index.

Morocco's vibrant and diverse service economy warrants greater policy attention, better overall policy coordination, enhanced trade and investment promotion efforts, and a more effective institutional architecture federating the voices of the multiple ministries, regulatory institutions, and non-governmental bodies at play in the sector. Morocco would also benefit from ensuring that services are comprehensively addressed in its trade agreements, something the Kingdom has so far only done with the United States (and is currently pursuing under the AfCFTA).

Strengthening Moroccan Trade Policy Formulation and Implementation

Chapter 5, by PCNS Senior Fellow Professor Larabi Jaidi, and entitled **Strengthening Moroccan Trade Policy**, chronicles the recent changes made to Morocco's trade policy architecture. Beyond recalling the need for greater institutional stability, the chapter argues that Morocco's capacity to develop and implement its trade policies could usefully be strengthened. A medium-term trade strategy that properly aligns the key participants in commercial diplomacy (including government departments, bodies under the supervision of the Ministry, representatives of professional and business organizations, and civil society) would be of primary importance.

A reading of trade-policy pronouncements made since the beginning of the 1990s highlights five core policy aims on which a consensus has steadily emerged beyond the numerous changes resulting from shifting political alliances. These are: i) strengthening Morocco's position in key foreign markets; ii) supporting domestic producers while complying with Morocco's international commitments; iii) addressing structural external balances; iv) streamlining the mandates and service offerings of trade and investment support organizations; and (v) ensuring broad coherence in the positions of different players in bilateral and multilateral trade negotiations.

While the policy measures enacted by the Ministry of Foreign Trade have generally been inspired by the above elements, and adjusted periodically in line with evolving national and international realities, their implementation has undergone sustained institutional changes. Institutional changes in the status or positioning of the Ministry of Trade within the government structure have been too frequent to ensure the effective implementation of agreed policies. The boundaries of the Ministry itself, and its links with other departments (Crafts, Tourism, Industry), have often been redrawn. Its relations with other key line Ministries (Agriculture, Finance, Foreign Affairs) were sometimes unclear, for instance with regard to investment policy. This has resulted in confusion and the multiplication of 'grey areas' in which responsibilities have not always been identifiable. Conflicts of attribution and policy uncertainty inimical to the required continuity of public action have been unintended consequences.

Avenues exist to improve Moroccan trade policymaking. These include consolidating the Kingdom's trade-policy formulation process, improving the quality of inter-agency coordination, and reaching out more effectively and strengthening consultations with external stakeholders while also addressing identified capacity gaps in expertise, resources, and institutional alignment. Such an approach would help build a more permanent, sustainable, and dynamic capacity to set goals, establish work programs, measure progress in policy implementation, and, where needed, take corrective steps. It would also enhance two-way information exchanges between the Government, the private sector, and civil society in informing the country's business strategies and trade-policy choices. Such a synergy of visions and actions would help ensure lasting improvements in the Kingdom's trade performance and investment climate.

Part II:

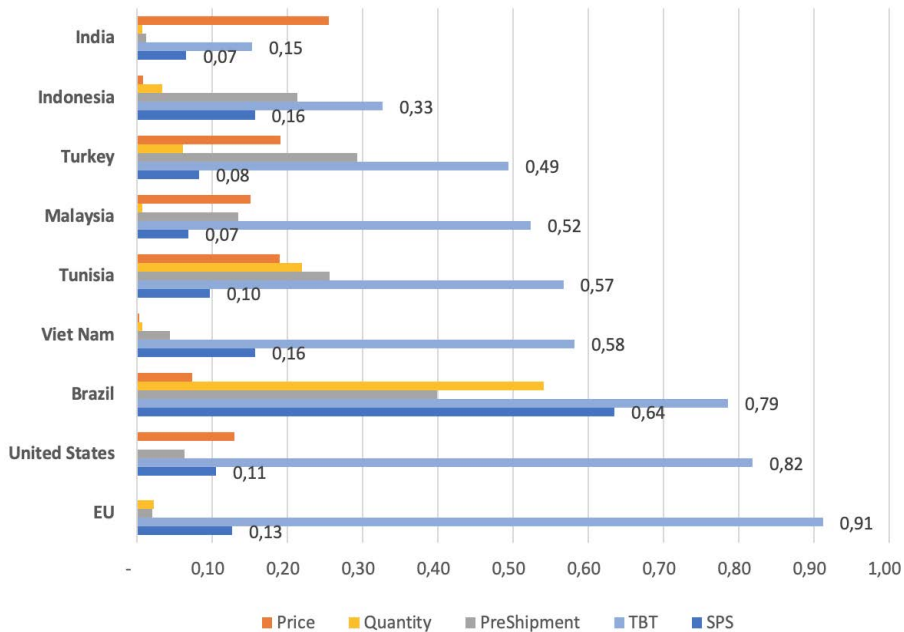
In spring 2020, as the COVID-19 pandemic took hold, the Government of Morocco sought advice from the Policy Center/World Bank team on four elements of its trade policy portfolio. The four chapters found in Part II of this volume respond to this request.

Tackling Non-Tariff Impediments in Key Export Markets

Chapter 6, **A Review of Non-Tariff Measures Faced by Moroccan Firms** by Sahar Sajad Hussain and Shane Sela of the World Bank, and Jamal Machrouh from the Policy Center for the New South, provides an overview of non-tariff measures (NTMs) in Morocco's main existing and potential export markets. The chapter digs deeper into the NTMs faced by select commodities important to Moroccan exporters, especially sanitary and phytosanitary standards applying to Morocco's agricultural exports, and technical standards affecting Morocco's exports of cars, chemicals, aircraft parts, and other manufactured goods. Its review of NTMs recalls how their use varies considerably across sectors and the political economy challenges involved in their dismantling (Figure 5).

Chapter 6 discusses the importance for Morocco of putting in place a proactive and comprehensive strategy to limit the negative consequences of NTMs on the performance of its exporting firms. Two categories of actions can be considered in this regard: actions for adoption by the public sector, and others to be undertaken by the private sector (business federations, industry associations, and firms). The two sets of actions should work together to provide better responses to the challenges raised by NTMs. Actions may include: (i) strengthening the capacity of economic advisers and/or appointing 'customs attachés' in Moroccan embassies in key export markets to monitor NTMs; (ii) establishing a national mechanism for the collection of data on NTMs; (iii) removing domestic NTMs (studies show that a significant share of NTMs faced by exporters are of domestic origin); (iv) developing a legal strategy—and commensurate legal expertise—to challenge unduly burdensome NTMs; (v) establishing a dedicated NTM Division within the Ministry of Industry and Trade; (vi) supporting the private sector to strengthen its own capacity to comply with, adapt to, or challenge NTMs; and (vii) establish an early warning system in business confederations and industry associations to collect the grievances of operators, analyze the NTMs in question, and mobilize the competent governmental entities.

Figure 5. Coverage Ratios of NTMs Facing Moroccan Exporters in Destination Markets¹⁰



TBT: technical barriers to trade; SPS: sanitary and phytosanitary measures

Source: UNCTAD.

Assessing the Case for New Preferential Partnerships

Chapter 7, *Assessing Morocco's Potential New Preferential Trade Partnerships: India, Indonesia, Malaysia, and Vietnam* by Aleksandar Stojanov and Jean-Christophe Maur from the World Bank, takes up the question of how Morocco should best deepen its trade ties with the world in diversifying both the product and geographical range of its export basket. Moroccan exporters have to date largely been satisfied with the near-abroad markets of Spain and France. But this carries increasing risks at a time of heightened locational

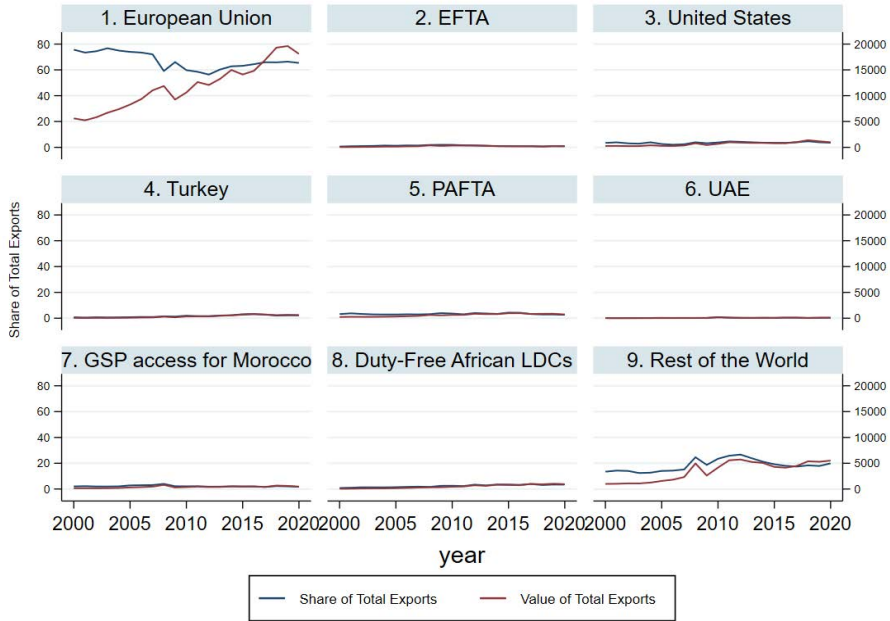
10. NTM coverage ratios are calculated by determining the value of imports of each commodity subject to NTMs, aggregating by applicable Harmonized System (HS) commodity group, and expressing the value of imports covered as a percentage of total imports in the HS commodity group.

competition and shifting cross-country patterns of comparative advantage. The question arises of the contribution that new preferential trade ties, notably with partners in South and South-East Asia, and in Africa, might play in addressing Morocco's diversification challenge.

Preferential trade agreements (PTAs) play a central role in Morocco's external economic relations, and have helped shape the recent evolution of the Kingdom's external competitiveness. Excluding trade flows conducted under the Generalized System of Preferences, PTA partners account for 75% of Morocco's two-way trade and an estimated 91.5% of the Kingdom's inward FDI stock. Trade volumes with PTA partners have increased and Morocco's export basket with them has become more diversified, offering evidence of beneficial spillover effects. However, such benefits appear largely limited to Morocco's immediate periphery in the EU. Exports to the United States show few signs of PTA-induced diversification, and have in fact become more concentrated owing to an increase in the relative share of phosphate exports. These trends contrast with Morocco's trade and investment patterns with countries that are not part of the Kingdom's PTA network, or are partners in relatively shallower PTAs, with whom Morocco has registered faster trade growth in both instances (Figure 6).

India, Indonesia, Malaysia, and Vietnam (the so-called IIMV grouping) rank among potential partners to deepen Morocco's trade and investment ties in Asia and expand the Kingdom's PTA network in the world's fastest growing region. The IIMV economies are large, growing above the world average, and therefore attractive. India (the world's fifth largest economy), Indonesia (16th), Malaysia (37th), and Vietnam (46th) are all significantly larger than Morocco (60th).

Figure 6. Morocco: Trade Growth with PTA Partners and the Rest of the World, 2000-20



Source: Office des Changes du Maroc.

Despite their size and growth prospects, IIMV markets offer only limited new export opportunities in product categories for Morocco traditionally enjoys a comparative advantage. Morocco is a marginal exporter to the IIMV, with phosphate products, notably fertilizers, the leading exported product. There is, accordingly, a very narrow export base to build on. Looking at products where Morocco has enjoyed recent success, such as auto parts, foodstuffs, and vegetables, many such products rely on value-chain networks anchored in Morocco’s physical proximity to its main export markets in the EU. Sources of comparative advantage for Morocco in IIMV service markets appear equally thin, with barriers such as language and differing legal structures weighing on prospects for expanded exports.

Viewed from the standpoint of IIMV exporters, Morocco could prove attractive as a base for accessing third markets, even if the Kingdom’s domestic market is likely too small to be a major destination. Morocco’s preferential access to markets in Africa, the EU, and the U.S. may attract investors and

exporters from IIMV countries. However, other factors come into play affecting such decisions, notably Morocco's competitiveness relative to competitors in Central and Eastern Europe, Turkey, Egypt, and other MENA countries.

Scope exists for Morocco to leverage its strategic location between Europe and Africa to serve as a gateway for enhanced access to African markets under the AfCFTA. This may prove particularly useful in deepening ties with India, given the latter's growing interest in scaling up trade and investment links with Africa, and in responding to the competitive inroads made by China's Belt and Road Initiative. Morocco's economic ties with Africa will accelerate as the AfCFTA is implemented and its normative scope enlarged to address services, investment, digital trade, and procurement matters¹¹.

Deepening two-way trade and investment ties with IIMV partners is likely best managed through stepped-up export-promotion policies, rather than via PTAs. Reliance on stepped-up commercial diplomacy, and trade and investment promotion efforts focusing on selected value chains of mutual interest, may indeed represent a more cost-effective strategy for improving trade ties with leading players in the region.

Morocco's trade-diversification efforts should not only imply the search for new partnerships. More effort is needed to broaden and deepen the scope of existing ones. This entails taking fuller advantage of preferences in traditional markets. For example, the PTA with the U.S., which is Morocco's most comprehensive and covers services, has resulted in limited trade expansion. Deepening existing PTAs, beginning with that linking Morocco to the EU, to cover services, digital trade, and other trade-related regulatory issues, would offer additional avenues to improve market access. Morocco should also seek to revive regional trade integration in the MENA region, with which it shares religious and cultural ties. While trade in the MENA region has declined sharply in recent years, Morocco should continue to seek to expand trade through the Pan-Arab Free Trade Area (PAFTA). Closer ties with members of the Gulf Cooperation Council also seem opportune, particularly in light of Saudi Arabia's ambitious diversification quest towards manufacturing, and Morocco's proven export capacity in a range of services.

11. World Bank simulations show that Morocco's manufacturing sector could make significant inroads into African markets and be one of the leading beneficiaries of the agreement. See Maliszewska and Ruta (2020).

Embracing Frontier Issues in Trade Governance: Digital Trade and Investment Facilitation

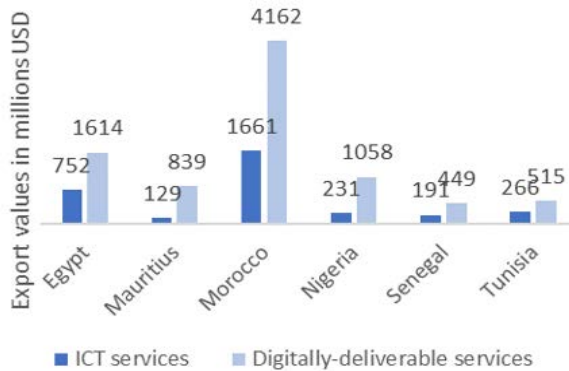
Chapters 8 and 9 explore the impacts that Moroccan participation in ongoing Joint Statement Initiative discussions on e-commerce and investment facilitation for development could exert on the Kingdom's economy. The two chapters document marked contrasts in Moroccan policy approaches towards the two new issues that have generated the greatest traction at multilateral level.

Morocco should ensure greater overall coherence in the deployment of its trade diplomacy, and should harness market access and rulemaking advances available to it across all negotiating theaters. The Kingdom can position itself as a leading player and shape discussions on frontier issues in trade and investment governance, all of which can make an important contribution to the Kingdom's trade, investment, and regulatory performance in the years ahead. Such issues are today chiefly addressed in latest generation PTAs (Mattoo et al, 2020), or on a plurilateral basis among like-minded WTO members through so-called Joint Statement Initiatives (JSI), spanning areas including e-commerce/digital trade; investment facilitation; services domestic regulation; trade and environmental sustainability; micro-, small and medium-sized enterprises (MSMEs); and trade and gender.

Chapter 8, **Digital Trade Rules: Current landscape in Morocco and policy options for developing countries** by Lillyana Daza Jaller, Martin Molinuevo, and Pierre Sauvé, reveals that Morocco has exhibited marked precaution in negotiations on digital trade, opting to stay—like many African countries—largely on the sidelines of ongoing plurilateral discussions at the WTO on e-commerce. Such a policy stance appears to signal simultaneously the country's embrace of the transformative properties of digitization at African level whilst professing skepticism towards the deployment of similar rules on a global level. Morocco's leadership role on matters of African digital governance would be strengthened by the learning-by-doing benefits of deepened participation in e-commerce negotiations at the WTO.

Morocco is in a strong position to lead continent-wide efforts to promote greater integration in digital trade and investment, having developed a competitive export-oriented digital services sector, oriented particularly towards business and IT outsourcing (Figure 7). Morocco's digital services sector can thus serve as a force to encourage Moroccan diplomacy with the goal of expanding business opportunities in Africa and beyond.

Figure 7. Morocco and its African Peers: Exports of ITC and Digitally Deliverable Services (Latest Year)



Source: UNCTAD (2020).

Morocco has also advanced domestically in key aspects of digital trade regulation, which can help it guide the adoption of a conducive and coherent regulatory framework across the continent. The Kingdom has built a domestic regulatory framework largely aligned to the most ambitious agreements concluded to date on digital trade, including advanced disciplines on issues such as data protection and intermediary liability¹².

Morocco's digital ambivalence contrasts with the far more active engagement it has shown in plurilateral negotiations among WTO members on the issue of investment facilitation for development (IFD). This encompasses a range of measures aimed at making the legal and administrative environment for international investment more transparent, predictable, efficient, and less costly for economic operators. This is taken up in Chapter 9, *WTO Negotiations on Investment Facilitation for Development: Implications for Morocco* by Pierre Sauvé from the World Bank.

Morocco's active participation in IFD negotiations—epitomized by its submission of a comprehensive draft treaty text early in the negotiations—suggests a readiness to enhance the country's investment climate, attract the extra volumes of quality FDI needed to speed up recovery, and position Morocco to take advantage of supply chain diversification efforts and 'friendshoring' incentives that might be induced by responses to the COVID-19 pandemic.

12. These issues were further assessed in World Bank work on digitization in the MENA region. See <https://www.worldbank.org/en/topic/digitaldevelopment/brief/data-to-foster-development-in-mena>.

Morocco stands to benefit from embedding the principles of good host-country governance at play in the IFD talks. The various provisions under consideration point to a possible outcome largely akin to a codification, in a multilateral context, of practices and policy orientations broadly aligned to Morocco's existing investment policy, and found in the Kingdom's newly reformed bilateral investment treaties (BITs), the country's 1995 Charte de l'Investissement, and the FDI-facilitating role already assigned to the Kingdom's Centres Régionaux de l'Investissement.

A WTO-anchored IFD framework would represent a useful complement to current Moroccan practices, the level of sophistication of which are likely to entail limited compliance costs. Such investment disciplines may be useful when post-COVID-19 locational competition over FDI is intensifying, and to help counter the recent inward-looking shift in the Kingdom's trade and industrial policy mix.

Moreover, Morocco's emergence as an important FDI source country, particularly in Africa and in highly-regulated service sectors, suggests that a plurilateral agreement on IFD could generate positive impacts for Moroccan investors. It would do so by strengthening the investment regimes of countries to which rising levels of Moroccan FDI have been directed in recent years, but where the investment regimes may not be as developed, transparent, open, or facilitative as Morocco's.

Part III:

Lessons From Korean Trade Policy: Insights for Morocco

Like Morocco, Korea is one of the few countries to have entered into free-trade relationships with the United States and the European Union. Like Morocco, Korea has faced significant political challenges in forging deep economic ties with its immediate periphery, forcing it to pursue a policy of global trade diplomacy. Korea's highly successful push towards digitalization has transformed it into one of the world's most highly-connected economies. Rooted in sustained public investments in human capital, Korea's digital push has underpinned the growth (including in trade terms) and increasing sophistication of the country's service economy, and its impact on the competitiveness of user

industries. Moreover, both Korea and Morocco aim to exercise middle-power leadership in ongoing processes of regional economic integration—Korea within the Regional Comprehensive Economic Partnership (RCEP) and Morocco within the AfCFTA—and to emerge as trade and investment hubs in their respective regions.

This volume therefore concludes with contributions from two leading Korean trade scholars distilling best-practice lessons that emerge from the formulation and implementation of Korean trade policy, and the country's management of disruptions to key supply chains experienced as a consequence of the COVID-19 pandemic.

The Korean government has engaged in trade liberalization by actively participating not only in multilateral initiatives, but also in various preferential trade agreements. And, with multilateral negotiations under the WTO system stalled after the late 1990s, PTAs have gradually emerged as a key component of Korea's trade policy, under the assumption that they would serve not as a stumbling block but rather as a stepping-stone to worldwide trade liberalization. As a result, Korea now has a total of 16 FTAs in effect with 57 partners around the world. Korea's PTA partner countries account for 77% of world GDP and 70% of Korea's overall trade. Significantly, Korea ranks as one of the few countries to have reached preferential agreements with four of the leading economies of the world: the United States, the EU, China, and India. Korea's extensive FTA network has served as a safety valve for its external trade in the face of shrinking global trade and rising uncertainty flowing from prolonged global growth weaknesses and rising trade protectionism.

Korea's strategy has emphasized the importance of Korea's linchpin role in regional economic integration, especially between the (then U.S.-led) Trans-Pacific Strategic Economic Partnership (CPTPP thereafter), and the China-led Regional Comprehensive Economic Partnership (RCEP). Korea has also identified win-win PTA strategies with emerging economies.

In mapping its PTA strategy and selecting priority partnerships, Korea conducted systematic ex-ante analysis of target partners and assessed the economy-wide and sectoral impacts such agreements were likely to exert on the domestic economy. This is important to promote a whole-of-government approach, to strengthen the process of inter-agency coordination, and to foster regular policy dialogue with business and academia. All are elements of trade policy formulation that Morocco needs to scale up.

Also of relevance to Morocco and the New Development Model's emphasis on promoting greater market contestability in its PTAs with major advanced economies, the Korean government aims not only to promote expanded two-

way trade and FDI, but also uses them as a means of promoting competition in the domestic market through adoption of pro-competitive regulatory frameworks. The government also pursues PTAs with developing countries in parallel to those with advanced economies with a view to mitigating the possible adverse short-term impacts on domestic industries likely to flow from engagement with more advanced partners.

Also key is the importance of assessing the impacts of new trade agreements. Korea's Trade Procedure Act stipulates that the following issues should be fully addressed by impact assessment studies: (i) economic effects of the PTA in force; (ii) effectiveness of remedial domestic measures for adversely affected sectors; and (iii) joint committee discussions, including on the implementation of treaty obligations by the trading partner.

The volume concludes with a discussion of Korea's policy response to evolving global value chain (GVC) dynamics in recent years. Particular attention is paid to Korea's reshoring policy just before the coronavirus pandemic erupted, and Korea's supply-chain improvement strategy in response to Japanese export restrictions and mounting trade tensions between the United States and China. Korea's COVID-19 related GVC strategy aimed to strengthen the domestic medical parts, materials, and equipment industries, while its Digital New Deal policy was promoted as a countermeasure to revitalize the economy.

Korea's plan to turn the COVID-19 crisis into an opportunity offers meaningful lessons for other countries' GVC strategies. Korea used the COVID-19 crisis to promote the digitalization of its own industry and to lessen its dependence on imported medical goods and components through targeted support policies directed at key industry players. Because global supply-chain risks arising from COVID-19 will likely remain even in the post-pandemic era, this implies that companies will strive to enhance GVC resilience by expanding domestic supply chains, promoting cooperative linkages between lead (often foreign) firms and SME suppliers, diversifying their sources of supply, and digitizing their supply chains in response to such risks.

Concluding Thoughts

This volume documents how Morocco has derived considerable benefits from its policy of openness and integration into international trade and investment flows. It also points to numerous steps that Morocco can take to derive greater advantages from vast and growing global markets. These steps include a dual strategy of deepening ties with the EU—Morocco’s most important trading partner—and diversifying Morocco’s trade geographically to address unexploited and rapidly growing markets in Asia and North America (and within the European Union itself).

Agricultural exports have performed especially well in recent years, and significant opportunities for geographical and product diversification exist—including in sustainable, low carbon products. Morocco has a pronounced comparative advantage in several service sectors that need to command greater attention from policymakers: Morocco’s services are the nation’s largest source of value-added (including of exports measured in value added terms), and inclusive employment.

Morocco’s trade-policy apparatus would benefit significantly from greater institutional stability and strengthened capacity. The ability to formulate a coherent trade policy in consultation with varied stakeholders is a crucial aspect of international competitiveness in a globalized economy such as Morocco. Strengthening that capacity would help restore Morocco’s prominence in international economic diplomacy, and enable it to be a leader in negotiations on the African Continental Free Trade Agreement, and a vocal advocate of African interests in the WTO.

Improving Morocco’s trade performance also requires major reforms that lie beyond the realm of trade policy. These include a reskilling of the Moroccan labor force, ensuring that Morocco’s stepped-up trade performance is underpinned by a sound macroeconomic framework that facilitates export growth, and acceleration of the economy’s decarbonization efforts in line with the Kingdom’s commitments under the Paris Agreement. Trade policy can and must play a more central role in addressing Morocco’s growth and development challenges. Morocco must stay the course towards deeper integration into the global economy. Experience has shown time and again that pursuit of the trade reform priorities identified in this volume can be expected to pay high growth and development dividends.

Next Steps: Questions for Further Research on Moroccan Trade Policy

While this volume provides evidence on a number of key issues confronting Moroccan trade policymakers, there are also some issues that deserve further evidence-based research to inform the trade strategy and policies of the Kingdom. Specifically, we highlight four issues that deserve the most attention in our view:

- **Our analysis highlighted the key role of macroeconomic policies and industrial policies in determining trade performance.** It will be important to investigate whether (and, if so, how) Morocco's structural and macroeconomic policies induce an anti-export bias, especially in light of large remittance inflows. Similarly, there is need to assess carefully the extent and impact of state support in various traded sectors of the Moroccan economy. Doing so assumes greater analytical importance at a time of heightened industrial-policy activism in Morocco and elsewhere. More systematic efforts to produce this information and scrutinize the efficacy of state support measures are needed. This analysis will be especially relevant in the context of Morocco's New Development Model, and the drive to increase competition in sectors characterized by lower levels of market contestability, and where trade and investment liberalization alone may not represent optimal tools to address anti-competitive conduct.
- **Assessing the degree to which the COVID-19 pandemic and more recent geopolitical developments may strengthen calls for a shortening of supply chains and encourage locational decisions based more centrally on relationships of trust—so-called 'friendshoring'.** Changes in this direction could heighten Morocco's attractiveness as a desirable destination for the nearshoring of various supply chains, notably those integrated into EU manufacturing sectors. How will such developments affect the design and future deployment of Moroccan investment facilitation efforts and FDI incentive programs? What could be the likely impacts for Morocco's trade balance and economic growth of stepped-up government support for major foreign-invested manufacturing sectors, beginning with the automotive sector?
- **Understanding how best to ensure that Morocco's vibrant service sector becomes a source of continued trade and FDI diversification, notably in more value-adding knowledge sectors including digital trade, professional and financial services, and trade logistics.** A more diversified and competitive service economy will in turn underpin efforts directed at manufacturing

upgrading, alongside the necessary advances in inclusive employment patterns. The service sector's relative policy neglect, owing in large measure to its diversity and related institutional and regulatory dispersion, calls for the establishment or strengthening of more effective public-private policy coordination mechanisms to give the sector the clout it warrants in decision-making circles. For all the above challenges, continuous monitoring and evaluation of public policies will be needed.

- **Leveraging the potential of the AfCFTA and harnessing Morocco's dense PTA network for development gains.** Morocco's stated aim is to play a lead role in the implementation and deepening of the African Continental Free Trade Agreement, particularly in areas where the Kingdom has rising stakes on the continent. This spans a range of manufacturing and service activities, including in the digital realm, and in relation to the AfCFTA's still to be agreed investment rules. Useful research could be directed to assessing how Moroccan trade diplomacy can take on a leadership role in Africa, particularly where its regulatory and business ecosystems already show greater sophistication. Efforts are also needed to measure the economic benefits to be leveraged from deepening Morocco's existing PTAs, particularly with the EU, notably by taking up services and newer issues including digital trade, trade and gender, trade and competition, and trade and environmental sustainability. Such efforts need to rest on the development and deployment of solid ex-ante and ex-post monitoring and evaluation methods and metrics.

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PART I

ASSESSING MOROCCO'S TRADE POLICY PERFORMANCE

2

TRADE AND INDUSTRIAL POLICY IN MOROCCO

Ait Ali & U. Dadush¹

Morocco's economic policies are in flux in the wake of the COVID-19 crisis, and as the economy confronts the challenge of many years of slow growth against a background of high-income inequality. Moroccans are embarking on a new, more inclusive, development model² and many are asking whether policies of openness and integration in the global economy are working for them. This chapter assesses Morocco's trade and industrial policy. Is it working? How can it be improved?

A Different World, A Different Morocco

Morocco is not alone in questioning the net implications of globalization on welfare. After the outbreak of the Global Financial Crisis (GFC) in 2008, global economic growth slowed sharply, while income and wealth inequality increased in many countries. Meanwhile, increased migration and refugee flows have contributed to a rise in domestic tensions and the emergence of what some have called 'identity politics'. One consequence has been the increased influence of political voices espousing nationalism and protectionism. For

1. The authors are grateful to Fahd Azaroual for his excellent research assistance.

2. Commission Spéciale sur le Modèle de Développement (2021) << Le Nouveau Modèle de Développement : Libérer les énergies et restaurer la confiance pour accélérer la marche vers la prospérité et la prospérité pour tous >>Rapport. Available at <https://www.csmd.ma/rapport-fr>

example, 'America First' policies in the United States have resulted in tariff increases that many have decried as arbitrary and in violation of World Trade Organization rules. Morocco's steel industry suffered from tariff increases in the United States justified on national security grounds. The United States has refused to reappoint judges to the WTO's Appellate Body, which has ceased to function. The WTO construct—which underpins Morocco's trade regime—has come under existential threat not only because of America-First policies but also because of the rising weight of China, whose economy has become more state-driven in recent years. As documented by the Global Trade Alert, resort to protectionist measures is on the rise globally, with measures including subsidization of domestic industry and increased recourse to non-tariff measures, while trade liberalizing measures have slowed³. So far, the Biden Administration has not signaled a decisive change of course in U.S. trade policy. Punitive tariffs on Chinese imports remain, and the WTO's Appellate Body is still disabled.

The disruption of global supply chains caused by the COVID-19 pandemic has strengthened the hand in Morocco, as elsewhere, of those who preach against reliance on foreign producers. Such tensions have been especially acute in the case of medical goods (see Box 1).

Box 1. Medical Goods

Although Morocco has been spared the worst effects of the COVID-19 pandemic, anxiety over the availability of medicines and medical equipment has spurred many to argue for self-reliance, especially as the European Union—Morocco's main supplier—placed export controls on many items at the outset of the pandemic.

Morocco's domestic market for medical products (estimated at about 1 billion to 1.5 billion) is small, and the scale required to support the R&D, testing, start-up of new drugs and medical equipment is likely insufficient in many cases. Morocco imports 90% of the medical equipment it needs, and exports little in the sector. Morocco will continue to be heavily reliant on international trade for most medical items, including for vaccines as they come on stream. Insofar as Europe promotes the reshoring of supply lines that it sees as overly reliant on Asian producers, it is far from certain that preferences will be accorded to Morocco rather than to lower-cost locations within the EU, notably in Central and Eastern Europe. The best policy

3. See <http://www.globaltradealert.org/>.

for Morocco is to keep its international supply chains open, to conclude contingent purchasing agreements with key suppliers, in coordination with other developing nations, to build strategic stockpiles of key medical products, and to enhance the productive capacity of firms that can exploit niches of comparative advantage in medical products. In addition, Morocco can improve its attractiveness to international investors in the sector. The small domestic market scale issue can be overcome by serving regional or continental markets. Morocco can position itself as an African platform for the medical industry and help meet the continent's needs. The construction of a vaccine plant close to Casablanca is a project that fits such ambitions. The plant will produce vaccines against coronavirus and other diseases and will be dedicated to cover the domestic and African markets.

Morocco should also support the inclusion of disciplines on medical products in regional, plurilateral and multilateral agreements, a topic garnering increasing attention in the WTO in the wake of the COVID-19 pandemic.

Though the national debate on the merits of open trade is lively, Morocco's trade policy remains anchored in WTO rules and in its preferential trade agreements (PTAs) with the EU and other major trading partners. Morocco is a signatory of the African Continental Free Trade Area (AfCFTA). However, there are also signs of backtracking. For instance, Morocco's preferential trade agreement with Turkey came under increasing scrutiny as the bilateral trade deficit widened and as Turkey successfully prosecuted a case against the Kingdom at the WTO. At the same time, negotiations on a revamped and more comprehensive trade pact with the European Union, by far Morocco's largest trade and investment partner, were placed on the backburner. Negotiations with the EU have not progressed despite the resolution of political disagreements. Furthermore, Morocco twice increased its most-favored nation tariffs on numerous imports (Box 2), some of the tariff reductions under the Morocco-Turkey FTA were reversed, and there have been various references to increased 'national preferences' in official communications, including in the 2021 Budget Act, and a determined push for the adoption of import substituting measures.

Box 2. The Debate on Morocco's Increased Tariffs

Morocco has raised tariffs on several items—mainly consumer goods—originating in countries with which it does not have trade agreements, as well as—after negotiations—with Turkey, with which Morocco does have an FTA. In January 2020, tariffs were increased within WTO bounds to 30%, and then to 40% in July 2020⁴ for 125 products. The anticipated effect on sectors of the Moroccan economy is varied, with some selected sectors favored by high tariffs and increased government support as part of the new policy of import substitution, while others are likely to be hurt by the rising cost of imported inputs. Moroccan consumers will bear the brunt of such policies in the form of higher prices. Not surprisingly, firms dependent on imports of the affected products have voiced strong opposition to the tariff hikes, even as the beneficiaries—especially garment producers—support them.

Although the tariff hikes affect less than 10% of Morocco's imports and are consistent with Morocco's WTO and Preferential Trade Agreements (PTA) commitments, their distortive effect should not be underestimated. First, the final consumer will bear the cost of the tariffs hikes especially in products that are not immediately substitutable by domestic or imported products. Even if they are, the shift in suppliers will likely imply additional costs. Second, retaliatory measures directed at Moroccan exports by the mainly Asian countries affected by the tariffs can be expected, hindering access to a dynamic market such as Asia. Third, tariffs send the wrong signal to large parts of Morocco's private sector by suggesting that protection, rather than increased efficiency, is the easier path. Finally, the preference margin now available to European producers on consumer products compared to Asian suppliers, for example, has increased substantially, and is likely to make the Moroccan economy even more dependent on a small number of suppliers.

Trade and industrial policy in Morocco can be viewed as largely one and the same, with responsibility lying with the Ministry of Industry and Trade, though the instruments differ, as do the legal frameworks affecting each policy domain. We first examine trade policy before widening the focus to the more varied tools of Morocco's industrial policy.

4. See table 3 in the annex on the tariff hikes per product.

Tariff and Non-Tariff Barriers

Following independence in 1956, Morocco adopted import-substituting industrialization policies until the early 1980s, when it began to reverse course in the wake of a series of balance-of-payments difficulties and slowing growth rates. Morocco joined the General Agreement on Tariffs and Trade (GATT) in 1987 and became a founding member of the WTO when it was established at the Marrakesh ministerial conference in 1994. The early 1990s marked a major turning point in trade policy, eventually resulting in the conclusion of the European Union-Morocco Free Trade Agreement (EUMFTA) and, subsequently, preferential trade agreements with the United States, Arab countries, and Turkey. Together, these agreements assure nearly tariff-free access for some three-quarters of Morocco's exports. Correspondingly, the effective tariff rate on Morocco's imports has been progressively and drastically reduced to around 4%, while its MFN rate—which applies mainly to imports from Asia—hovers around 11%.

Morocco's more liberal trade stance has coincided with an increase in net inward foreign direct investment, which typically hovers around 2.5% of GDP. Foreign investors come to Morocco to capture various types of opportunities, ranging from business and professional services, to construction and manufacturing for the domestic and overseas markets.

Despite major progress, numerous non-tariff measures (NTMs) continue to hobble Moroccan exporters, as do non-tariff barriers maintained in the domestic market, affecting both Morocco's exporters and importers. Numerous studies have concluded that NTMs are more significant in restricting trade than tariffs⁵. However, NTMs often consist of regulations which are motivated by legitimate concerns about health, security, and conformity, and the degree to which a specific NTM is an instrument of protection designed to place domestic firms in an advantageous position is often unclear, or at the very least a matter of judgment.

NTMs affecting Morocco's exports of goods take the form mainly of sanitary and phytosanitary (SPS) measures affecting Morocco's agricultural exports, and Technical Barriers to Trade (TBT) which affect all of Morocco's manufacturing exports to different degrees. These barriers vary by destination. Overall, TBT measures are the most common across all markets (with 33%-91% coverage ratios). The most wide-ranging SPS measures are imposed by Brazil, with a 64% coverage ratio. Not all NTMs affecting Morocco's exports are applied by

5. The World Bank (2021) estimated that tariffs account for only one fourteenth of trade costs, the bulk of which relate to shipping and logistics-related charges, as well as compliance with various administrative procedures applied at and behind borders.

its trading partners. A decade-old survey of Morocco's exporters (ITC, 2012) suggested that about one third of NTMs arose from Moroccan regulations governing exports of goods, including various types of licenses, quality control measures, and customs regulations.

Of course, Moroccan importers also face many NTMs, which also consist mainly of SPS and TBT measures. About 57% of Morocco's imports face NTMs of various kinds (compared to 72% in a sample of 75 countries), and some 45% of products imported to Morocco face one or more NTM, in line with the international average according to UNCTAD sources (WITS).

Two Common Misconceptions About Trade Liberalization in Morocco

There are two common fallacies relating to trade policy and trade liberalization in Morocco's public discourse. The first is that the Kingdom's persistent external deficit, and with it, slow growth and unemployment, are the results of trade liberalization. The second is that trade ties with the EU hurt Morocco. These misconceptions should be dispelled as they are increasingly fueling sub-optimal policy choices.

Morocco's Chronic Current Account Deficit is Not Primarily the Result of Trade Liberalization

Morocco's current account deficit was small in the first half of the 2000s, the years immediately following the entry into force of the Kingdom's PTA with the EU and following a long spell during which Morocco reduced tariffs on an MFN basis at the GATT-WTO.

Morocco's current account balance reflects a negative balance in merchandise trade. This is the focus of much political attention, while the trade balance in services is structurally positive and covers 40% of the country's merchandise trade deficit. A large inflow of worker and migrant remittances, amounting to about 6% of GDP, further offsets the goods trade imbalance. Morocco's current account deficit is financed in large part by net inflows of FDI, which have averaged 2.5% of GDP over the past decade.

Morocco's deteriorating current account deficit can be traced to the outbreak of the Great Financial Crisis in the latter part of 2008. Despite the worsening

external environment, Morocco's economy grew quite rapidly, averaging slightly more than 4% between 2008 and 2011. However, while domestic absorption and imports grew rapidly, export growth was muted. From 2007 to 2012, the current account deficit worsened to reach about 10% of GDP. This was followed by a period of gradual rebalancing. While concerns were raised about the negative implications on the external balance of the COVID-19 shock, 2020 and 2021 witnessed among the lowest current account deficits in the last decade, standing at 1.2% and 2.3% respectively. The improvement in terms of trade because of lower oil prices, the fall in domestic demand, and the spectacular jump in remittances, was large enough to offset the decline in tourism receipts and goods exports revenues. The current account deficit is likely to deteriorate substantially in 2022, as commodity prices surge and the global economy, especially Europe, slows. According to the latest estimates of the Central Bank of Morocco, the current account deficit is expected to reach around 5% of GDP. Although external debt appears manageable at 32% of GDP, the recent tightening of global financial conditions will pose challenges to Moroccan authorities as the capacity to access international financial markets at favorable terms reduces.

Trade liberalization may have contributed to Morocco's increasing trade and current account deficits temporarily as consumers and firms have adjusted to prevailing macro-economic instability. But trade liberalization may have also exerted a more durable positive impact on the trade deficit by boosting investor confidence in Morocco and stimulating inward foreign investment. Nevertheless, trade policy and trade agreements cannot be seen as the driving factors behind Morocco's structural external deficit.

Three other factors have played a major role in the deterioration of Morocco's external balance in recent years. These are: (i) a decline in domestic savings, mainly due to a widening fiscal deficit; (ii) high and volatile oil prices not compensated for, or offset by, exchange rate movements⁶, nor by sufficient changes in macroeconomic policy; and (iii) insufficient progress in improving the economy's competitiveness and outward orientation.

A country's current account deficit is identically equal to the excess of domestic absorption over national income or, otherwise stated, the excess of domestic investment over domestic savings. In 2007, Morocco's current account deficit equaled 2.5% of GDP. It reached 5.5% of GDP in 2018, a deterioration equal to 3% of national income. Over this period, domestic investment, in which public investment plays a big role, remained steady and above 30% of GDP⁷.

6. Energy subsidies may have delayed the adjustment to higher oil prices.

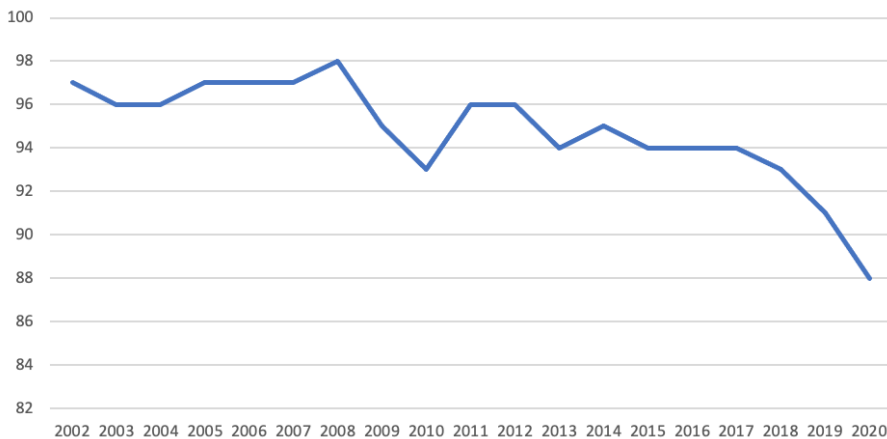
7. Morocco's current-account deficit is less likely to be a source of vulnerability if accompanied by a high rate of domestic investment. In the case of Morocco, the rate of investment as a share of GDP is high relative to peers, and Morocco's imports comprise a large share of capital goods.

Meanwhile, national savings declined from 33.9% in 2007 to less than 28% of GDP in 2018 (IMF, WEO database). The decline in domestic savings was more than accounted for by the rise in the government's net borrowing level, from about 0.5% of GDP in 2007, to nearly 4% of GDP in 2018. Meanwhile, the savings rate of the Moroccan private sector (households and firms) rose slightly over the period from a high level compared to many other countries at similar income levels. Several studies have pointed to the low productivity of Morocco's capital stock and the insufficient efficacy of the Kingdom's high rate of public investment (Agenor and El Aynaoui, 2015; Abbad, 2017).

Most recently, the rebound from the COVID-19 crisis brought with it a rise in investment to the historical average, leading to deterioration of the external deficit, despite a rising savings rate.

To a degree, Morocco's current account deficit also reflects the country's high dependence on imported fossil fuels, which account for 95% of its primary energy supply, one that was generally not compensated for by flexibility in the exchange rate, or by fiscal adjustments during periods of high oil prices (Figure 1).

Figure 1. Morocco: Energy Dependency Ratio, 2002-20 (%)

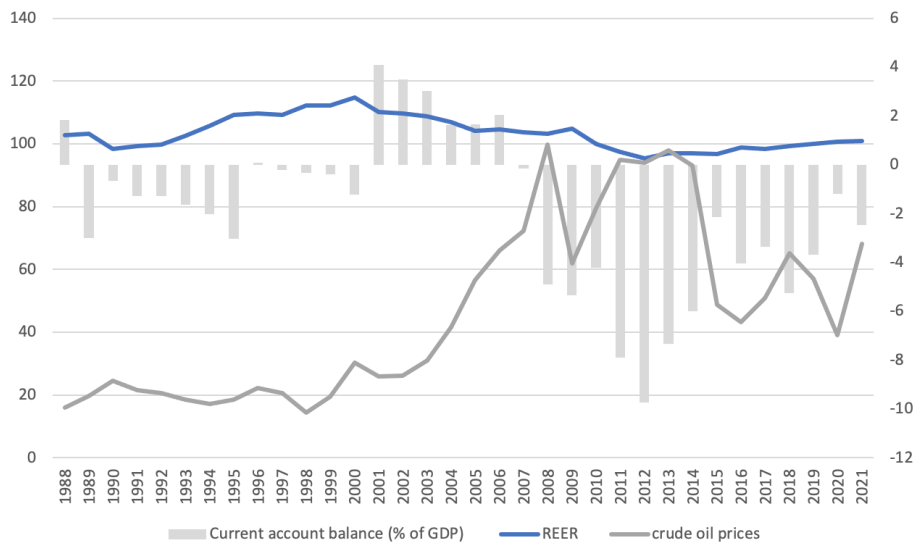


Source: Ministry of Energy Transition and Sustainable Development.

In this regard, the recent abolition of fuel subsidies and increased flexibility of the exchange rate are positive developments.

As Figure 2 shows, Morocco's current account balance is highly sensitive to fluctuations in oil prices. Morocco's real exchange rate tends to be stable despite large fluctuations in the oil price, reflecting Morocco's pegged exchange regime—with horizontal bands since 2021—and the country's success in maintaining a relatively low and stable rate of inflation. Oil prices abated after 2014, but remained higher than in the 1990s until the outbreak of the COVID-19 pandemic, and their spike from 2004 to 2014 fueled Morocco's large current account deficits⁸ during most of the post-crisis period, and contributed to the build-up of external debt⁹. The energy price hike in 2021 and 2022 is already exerting stress on Morocco's balance of payments.

Figure 2. Morocco's Current Account Balance as a Share of GDP, Morocco's Real Effective Exchange Rate Index, 2010=100 (REER) and Oil Prices, 1988-2021



Source: World Bank, Federal Reserve Bank of St-Louis.

8. FDI funded a part of the deficit, as it represents around 3% of GDP. Foreign exchange reserves have funded another part; they declined from 10 months of imports in the mid-2000s to cover about five months.

9. According to the IMF's 2019 Article IV review, Morocco's current account deficit widened to 5.4% of GDP in 2018, despite strong exports in the automotive and phosphate sectors. It had stood at 3.4% in 2017. This is explained mainly by the increase in energy imports. The Kingdom's slower GDP growth rate in 2018 (3%) was accounted for by weather-induced shortfalls in agriculture.

Throughout the 1990s, observers pointed to the importance of domestic policy reforms for Morocco's preferential trade agreement (PTA) with the EU to succeed¹⁰. Structural weaknesses contribute to Morocco's external deficits. Based on the World Economic Forum's (WEF) annual Global Competitiveness Index, Morocco ranked 75 out of 141 countries in 2019, a slightly better ranking than in 2014 (77) and above Morocco's ranking in per-capita income terms. However, Morocco's ranking has worsened since 2007, the earliest available date, when it ranked 64th¹¹. There is also a strong presumption that Morocco's restrictions on capital outflows and tax structure tend to favor investment in the non-traded sector, notably construction and real estate, at the expense of exports and import-competing sectors, an issue to which we return below in the discussion of industrial policy.

Has Morocco's Trade Agreement with the EU Hurt Morocco?

The Association Agreement between Morocco and the EU, which came into force in 2000, covers the lion's share of Moroccan trade—53.1% of merchandise imports and 66.7% of merchandise exports. But it remains controversial.

The EU-Morocco agreement entailed little new opening of EU manufacturing markets since barriers there were already low. It also entailed gradual and limited liberalization of trade in agricultural, agri-food, and fisheries products by both parties. Furthermore, the bilateral trade pact does not extend to services, a sector of increasing importance to the Moroccan economy. By contrast, the agreement committed Morocco to reduce its high tariffs on EU manufactures to zero by 2012, a commitment Morocco met on schedule. The twelve-year transition period foreseen under the PTA helped Morocco to adjust gradually to a significantly more liberal goods trade regime. Importantly, the PTA was seen in Morocco as a crucial organizing framework for domestic reforms, an irreversible commitment to make the Moroccan economy more competitive, dynamic and attractive to EU and global investors.

10. See Alonso-Gamo, P., Fennel, S. and Sakr, K. (1997) <<Adjusting to the New Realities: MENA, Uruguay Round and the European Union's Mediterranean Initiative>>, IMF Working Papers 97/5, International Monetary Fund. (pages 44 and 45, for a good overview of the complementary reforms needed for the EU-MENA agreements to succeed. These included policies fostering multilateral trade liberalization, macroeconomic stability, the adoption of pro-competitive regulatory reforms and, in key sectors, numerous 'behind-the-border reforms', stable security, and regional liberalization.)

11. See https://tcdata360.worldbank.org/indicators/gci?country=BRA&indicator=632&viz=line_chart&years=2007,2017.

The Association Agreement came with high expectations, but Morocco's economic performance over the last several years has been inadequate, while the trade deficit with the EU more than doubled, remaining close to 3% of GDP, from 2000, when the PTA came into force, until 2008, when the global financial crisis broke out. The bilateral trade balance has deteriorated markedly in recent years, reaching 6.4% of GDP in 2019.

However, trade improved by 23% in 2021 compared to 2019, and by about 10% compared to the pre-crisis level¹², following the mitigation of the pandemic and the economic recovery. In September 2021, as part of the EU's new trade policy review, the EU proposed to discuss modernization of trade and investment relations with Morocco. The aim is to better adapt the relationship to today's challenges, particularly with regard to value chains, greening, and digitization of the economy.

Contrary to the views of many critics, Morocco has derived considerable benefits from its trade ties with the EU, despite the agreement's limitations. The bilateral merchandise trade balance with the EU omits remittances from the EU and its positive services trade balance (mainly tourism), so it is not—by itself—a reliable indicator of the state of the economic relationship. Moreover, change in the merchandise trade balance is a poor and even misleading indicator of how the bilateral relationship is evolving. Morocco's bilateral trade deficit with the EU increased in large part because of shifts in Morocco's trade in primary commodities, which were offset by reduced trade deficits or increased trade surpluses with third parties. These offsets, which relate to Morocco's exports of phosphates and imports of petroleum products, help account for about half of the deterioration in Morocco's bilateral balance.

The value of Moroccan exports of phosphates and fertilizers destined for the EU has been highly volatile, reflecting world prices, which hit a peak in 2008. From 2007 to 2019, exports to the EU fell by about 23%, from around 1.2 billion in 2007 to about 920 million in 2019. However, during this period, Morocco's share of European imports of phosphates and fertilizers declined only marginally. Over the same period, Morocco's total exports of phosphates and fertilizers increased by about 2.5 billion, a near doubling (reflecting increased volumes, not prices) as new sources of demand were exploited in third markets, most importantly Brazil, the United States, China, and India¹³.

12. European External Action Service ; See https://www.eeas.europa.eu/morocco/european-union-and-morocco_en?s=204

13. However, in OCP's *Etats financiers consolidés 2018*, Morocco's exports of phosphates and fertilizers are seen to have increased by 37%. This record was due to rising exports of fertilizers which largely compensated for the observed drop in exports of crude phosphates.

Exports of phosphates and derivatives have been resilient, despite the pandemic. In 2021, the phosphates and derivatives sector led the country's exports with an increase of 57.1%. This strong increase was due mainly to the rise in prices of natural and chemical fertilizers by 71.4% compared to 2020.

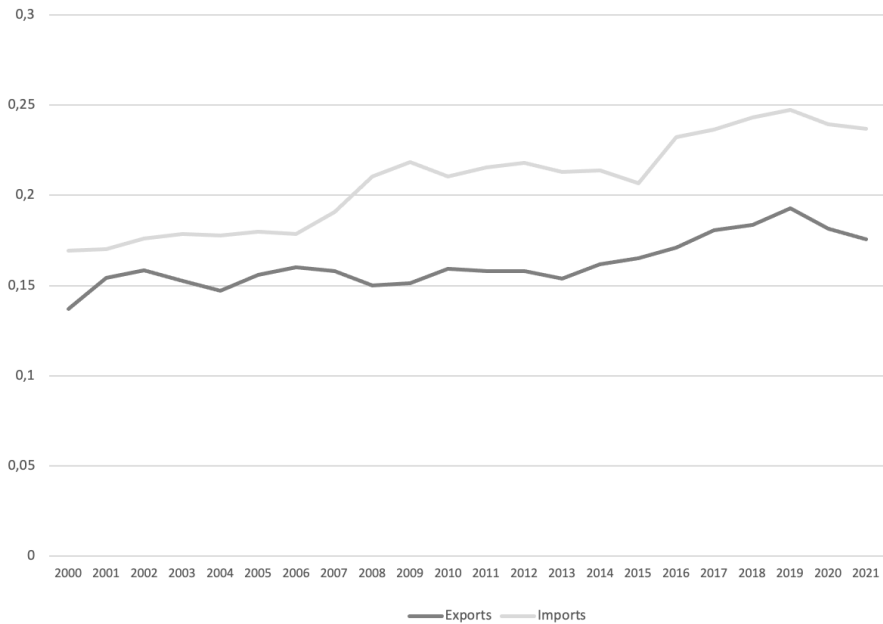
The other important factor affecting Morocco's bilateral trade balance with the EU is the shifting composition of Morocco's imports of petroleum and petroleum-related products. These rose rapidly from 2002 to 2019, a period marked by considerable volatility in world crude oil prices. The EU's market share of Moroccan imports of petroleum surged from 14.5% in 2002, to 42.3% in 2019, while that of its traditional suppliers—Russia and Saudi Arabia—reduced correspondingly. This reorientation reflects the collapse of Morocco's refiner SAMIR, which used to supply around 50% of the local market, following very large losses and allegations of mismanagement.¹⁴ This led Morocco to import more refined petroleum products from nearby EU producers, and to stop importing crude oil.

Meanwhile, Morocco's exports to the EU have performed better than is generally believed and have done so despite strong headwinds. When the PTA came into force in 2000, Morocco's share of European merchandise imports was 0.6%. In 2017, it stood a third higher at 0.8%.¹⁵ Although such a performance certainly represented a respectable outcome, it was less than many observers hoped for. Indeed, from 2000 to 2019, Morocco's exports to the EU grew relatively less rapidly than those to the rest of the world (6.9% versus 7.2% on average annually). Figure 3 shows that Morocco's share of world merchandise exports increased handsomely after 2000, from 0.14% to 0.18% in 2021, while its share of world imports increased even more, from 0.17% in 2000 to 0.24% in 2021.

14. Rim Berahab, Uri Dadush (2020) <<Le Maroc a-t-il bénéficié de l'accord de libre-échange conclu avec l'Union européenne ?>> Research Paper, Policy Center for the New South.

15. Rim Berahab, Uri Dadush (2020) <<Le Maroc a-t-il bénéficié de l'accord de libre-échange conclu avec l'Union européenne ?>> Research Paper, Policy Center for the New South.

Figure 3. Morocco: Share of Exports and Imports in World Trade, 2000-21 (in percentages)



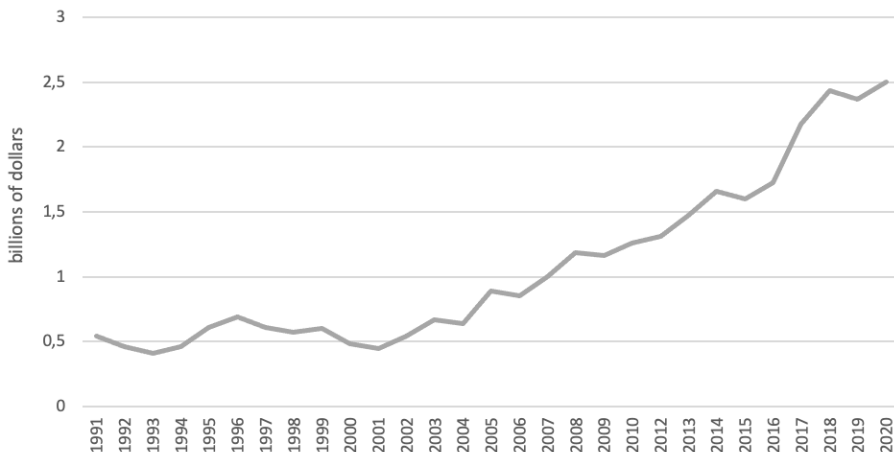
Source : CEPIL.

The question arises of why Morocco's exports to the EU have not grown faster. And why did exports to the EU grow more slowly than those to the rest of the world? Several headwinds, mainly unrelated to the PTA, can be identified. Perhaps most important is the fact that Europe has long been one of the world's slowest growing regions. Starting in 2008, the EU suffered massively from the global financial (and ensuing euro) crisis. Compounding these problems, the emergence of China as an export powerhouse and the end of the multi-fiber agreement (MFA) mandated by the Uruguay Round, meant far greater competition on European markets, especially in the textiles sector, which represented over 40% of Morocco's goods exports in 2000. China's textile exports to the EU surged, as did those of many other Asian developing countries. Morocco barely held its own, maintaining a 3.5% share of EU textile imports over the same period. Furthermore, the accession of 13 nations to the EU since 2004, most of which were classified as middle-income economies with sources of comparative advantage similar to those of Morocco, added further competitive pressures. Finally, the political turmoil in Morocco's neighbors over the years, culminating in the Arab Spring, clearly did not help Morocco's

competitiveness and the Kingdom's attractiveness as an investment destination, even though Morocco has remained relatively stable.

One reason for optimism stems from marked changes witnessed in the composition of Morocco's exports to the EU in recent years. These have increased in both diversity and sophistication, a process clearly helped by the PTA and by increased levels of EU FDI. In 2000, apparel and clothing accessories accounted for almost half (41%) of Morocco's exports to the EU, followed by electrical equipment (13%). Other exports were principally low value-added manufactures or agricultural products. In 2019, electrical equipment products became Morocco's leading export, with a share of 22.7%, while that of apparel and clothing exports dropped to 15.8%. In addition, road vehicles made their entry into the top three exported products, accounting for 17% of Morocco's exports to the EU in 2019, versus virtually none in 2000. Meanwhile, increased imports of parts, components, and machinery were a direct consequence of Morocco's increased integration into European value chains, helping lay the basis for a qualitative upgrading of the Kingdom's merchandise exports. Since the negotiation of a revised agriculture trade agreement in 2006, Morocco's agricultural exports to the EU have also grown by 8.7 % annually on average (until 2020; Figure 4).

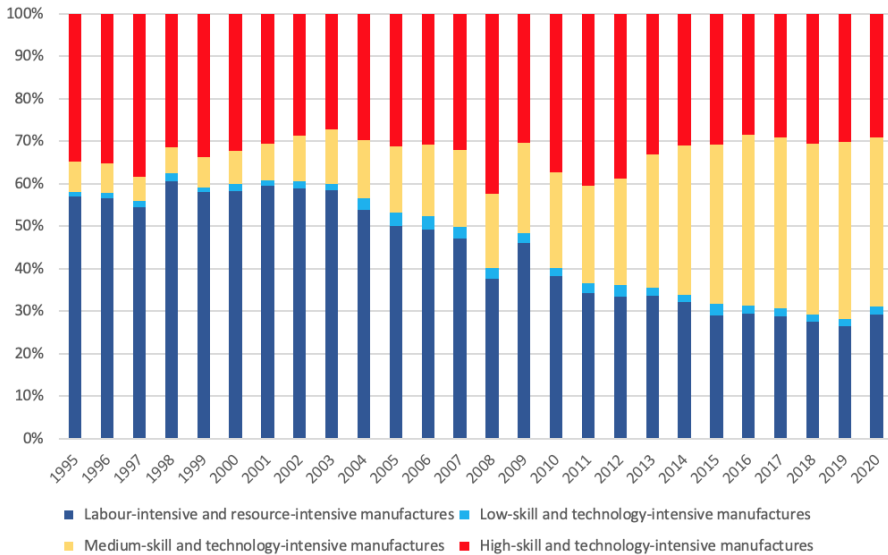
Figure 4. Morocco: Agricultural Exports to the EU, 1991-2020, Billions



Source : Food and Agriculture Organization.

Morocco's total trade has arguably become overly concentrated with the EU, especially with France and Spain, which are among the world's slowest growing markets (Dadush and Saoudi, 2019). Examining Morocco's aggregate export performance in more detail suggests a substantial increase in its technology content (Figure 5).

Figure 5. Morocco: Technological Content of Manufacturing Exports, 1995-2020 (%)



Source: United Nations Conference on Trade and Development.

The shift in the structure of Morocco's manufacturing exports towards medium-skilled and technology-intensive products is clear. In 2013, the year the Kingdom's automotive exports jumped, medium-technology exports accounted for 31.6% of manufactured exports, compared to 25.5% a year earlier. It was the biggest shift since this measure became available in 1995. By 2020, the share of medium-technology exports reached 39.7%, while that of low-technology exports declined sharply.

The increase of FDI into Morocco—especially that originating in Europe—and the heightened integration of Moroccan suppliers in regional value chains is unlikely to have occurred in the absence of the EU-Morocco PTA. It is difficult to imagine how European auto manufacturers could have set up in Morocco

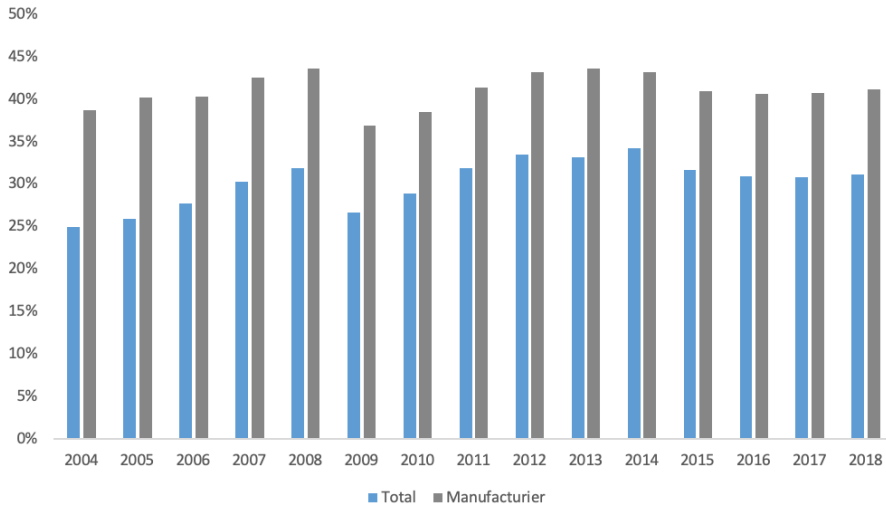
if it did not allow tariff-free imports of parts and enjoy unimpeded access to European markets. As anticipated during the negotiations with the EU, FDI picked up in Morocco following the PTA entry into force and has remained at a respectable level of 2.5% to 3% of GDP since then. Although some of the inward investment is motivated by the ability to access European markets drawing on the lower cost base in Morocco (so-called 'efficiency-seeking FDI'), other investment initiatives have pursued more purely domestic opportunities (so-called 'market-seeking FDI'), including in real estate and various types of services, some of which are also efficiency enhancing in Morocco, notably ICT services. As anticipated, the EU PTA appears to have increased investor confidence in the Moroccan economy by 'locking in' liberalization and establishing greater policy discipline in realms ranging from macroeconomic stability to labor and product market regulations. By the end of 2017, the Government of Morocco reported 26 auto industry investments worth 1.45 billion, including a deal with Renault (France) to increase local sourcing of components to 55%.¹⁶ The commissioning of French automaker Peugeot's plant in Kenitra was expected to increase Morocco's production capacity by 100,000 vehicles in 2019, and by an additional 100,000 vehicles by 2023. Meanwhile, the SOMACA plant's capacity is expected to expand by 70,000 units, bringing Morocco's total automobile production capacity to 700,000 units per year by 2023¹⁷. More recently, Renault agreed with the Moroccan government to expand its operations locally in order to increase its upstream integration to 80% by 2025. The agreement extends to the production of electric cars in the automotive group's plant in Tangiers¹⁸.

The share of foreign value added in Morocco's exports to the world increased from 25% in 2004, to almost 31% in 2018. Abdelaziz and Msadfa (2018) reported that this share had stood at 19% in 1995, confirming the trend. The foreign content in total exports is even more important for manufacturing exports, for which it stood at 34% in 2015 (Figure 6). The share of EU value added in Moroccan exports has also increased, reaching 15.4% in 2018, compared to 13.6% in 2004.

16. Rim Berahab, Uri Dadush (2020) <<Le Maroc a-t-il bénéficié de l'accord de libre-échange conclu avec l'Union européenne ?>> Research Paper, Policy Center for the New South.

17. DEPF (2020) << L'industrie automobile au Maroc : Vers de nouveaux gisements de croissance >>, Rapport.

18. Medias24

Figure 6. Morocco: Foreign Value Added in Gross Exports, 2004-2018 (%)

Source: OECD, TIVA.

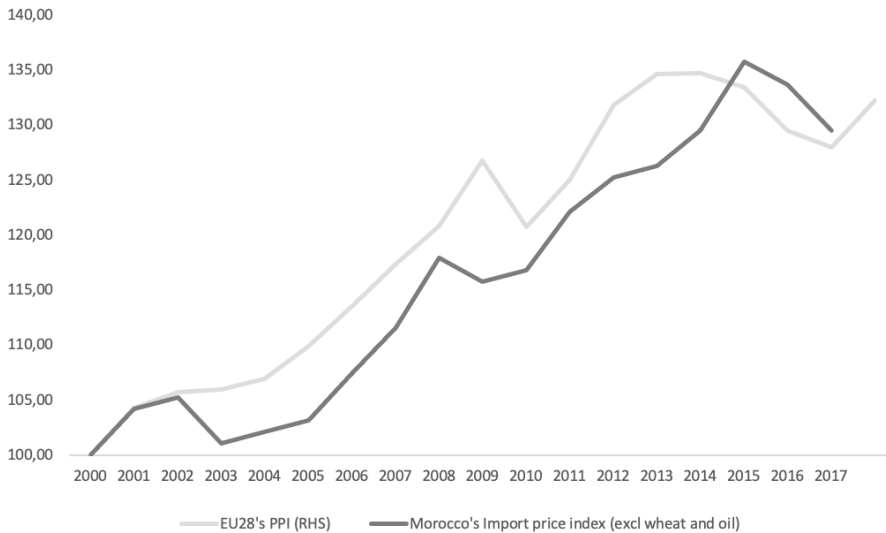
In an evaluation of the likely effects of the EU-Morocco Association Agreement, Rutherford et al (1997) estimated that 80% of Morocco's welfare gains would accrue to consumers in the form of lower prices. The mirror image, although only a partial one of these gains, was the reduction in the government's tariff revenue. In fact, tariff revenues declined from 3.1% of Morocco's GDP in 2000 to 0.8% of GDP in 2019, and had to be offset by other taxes, including value added and excise taxes. These taxes apply equally to domestic products and imports and are, therefore, less distortive of Morocco's production and consumption patterns.

Did the prediction in Rutherford et al (1997) that Moroccan consumers would gain from the EU-Morocco PTA come true? Unfortunately, it is not easy to isolate the effect of the PTA on Moroccan consumers. One example, however, is highly suggestive. While Morocco's trade liberalization relative to the EU and the rest of the world has progressed (Figure 7), the average price of automobiles in Morocco has not changed since 2006¹⁹, and has even declined slightly since 2015, despite a rise of 18% in Morocco's consumer price index over the same period. Adapting a method first proposed by Feenstra (1989), changes in the price of Morocco's imports since 2000—eliminating volatile items—have been less rapid than in those of the manufacturer producer prices of Morocco's

19. Earliest data available.

main suppliers. This suggests that the benefits of tariff reductions have accrued largely to Moroccan consumers, rather than leading to price hikes and increased oligopolistic rents.

Figure 7. Morocco's Core Import Prices and EU Producer Price Indices, 2000-17 (2000=100)



Source: Ministry of Economy and finance of Morocco and OECD.

Between 2000 and 2017, the producer prices of France, Spain, China, and the United States, expressed in dirhams, increased by 34% to 54%, much faster than Morocco's core import prices, which increased by 29% despite the dirham's 10% nominal devaluation over the period. Such trends are strongly suggestive of Morocco's WTO liberalization commitments helping to keep import prices in check. Over this period, Morocco also saw a large improvement in its terms of trade relative to its trading partners across the world (Berahab and Dadush, 2019).

In summary, Morocco has derived significant benefits from its policy of increased openness to trade and investment, including from its preferential trade ties with the European Union, with which it has become increasingly integrated. While Morocco's trade policies and trade agreements leave room for improvement, the root causes of Morocco's large trade deficits are unlikely to lie in the Kingdom's trade-governance choices. Rather, they primarily reflect

deficiencies in domestic policies. In the next section, we delve deeper into a crucial aspect of those policies: Morocco's various plans to support its industries.

Industrial Policy Instruments

Morocco's industrial policies are primarily directed towards promoting specific sectors (vertical interventions), rather than towards boosting the economy's overall productivity and competitiveness (horizontal interventions). A brief historical overview helps to better understand the Kingdom's current policy stance.

On independence in 1956, Morocco adopted a classic import-substitution strategy to lay the basis for the take-off of the country's manufacturing sector and reduce reliance on farming and phosphate production and exports. Mounting distortions, including state monopolies and a failure to generate the upstream integration of protected and subsidized sectors, combined with the oil crises of the 1970s, led to a balance-of-payments crisis that entailed a major shift in Morocco's development model towards openness, and a reduced role for the state in the Kingdom's economy (FEMISE, 2015). As in many developing countries, the surge in oil prices made it clear in Morocco that, while oil and many other components and raw materials needed to be imported for industrialization purposes, these could not be afforded without a viable export base. By the late 1990s, following the signing in 1994 of Morocco's landmark trade agreement with the EU, a series of privatization, fiscal consolidation, and financial deregulation measures ushered in industrial policies that were more neutral across sectors, as part of a plan to improve allocative efficiency and boost the economy's growth rate sustainably. As part of these reforms, the Government of Morocco continued to direct financial assistance through separate horizontal programs targeting large companies and leading SMEs. The programs provided investment subsidies up to 10% of a project's cost, with the textile and automotive industries securing the lion's share of available support programs aimed at 'upgrading', deploying technical assistance, credit guarantees, and investment subsidies (Achy, 2013).

These policies resulted in an extended period of rapid growth in Morocco of around 5% in the 2000s, about 2 percentage points faster than levels achieved in the 1990s. Still, growth failed to match the authorities' high expectations and trailed that of the most rapidly industrializing nations in Asia and of some of the more successful formerly centrally planned economies in Eastern Europe. Morocco's industrial policy took a new turn in 2005, with the policies of openness and reliance on the private sector retained, but also accompanied by

targeted government help to seven sectors seen as offering the greatest potential to Morocco in terms of comparative advantage and growth prospects. Included among these potential 'winners' were four manufacturing sectors (textiles, automotive, aeronautics, and electronics), one in services (the remote provision of back-office functions), and one reliant on agriculture, namely agribusiness, including fisheries.

The new Plan Emergence of 2007 came with numerical targets—priority sectors were for instance expected to create 400,000 jobs within five years. Instruments of the plan included investment subsidies under the 'Excellence' Program for highly promising companies, alongside current expense subsidies for SMEs within the 'Support' Program. Dedicated industrial zones and innovative training programs were developed to increase the attractiveness of the programs for foreign and local investors. Companies operating in 'Offshore zones' were granted tax exemptions for the first five years, and a flat corporate tax rate of 8.75% for 20 years. Since then, various refinements have been made the Plan Emergence. These have included placing greater emphasis on sectors possessing a revealed comparative advantage (2009-2014), and on greater upstream and downstream linkages (2014-2020), with a budget of 20 billion dirhams (2.2 billion²⁰), close to 2% of GDP.

A new industrial plan is currently in design phase, aiming to consolidate Morocco's position as a manufacturing hub but—in an important departure—with the explicit purpose of reducing the Kingdom's reliance on imports. The stated objective is to replace nearly 45% of imported final goods (with a total cost of 183 billion dirhams or 20.3 billion) with domestic production. To this end, the Ministry of Industry and Trade has created a 'project bank', which aims to identify hundreds of project opportunities for local entrepreneurs, and to provide close monitoring and other support services. To support this strategy, the Budget Amendment Act of July 2020 featured a rise in MFN tariffs to 40%, and an explicit recognition of the concept of a "national preference" in government purchases (see Table 1 in the annex). In addition, the TATWIR program grants direct financial and non-financial support to entrepreneurs in the form of support during an incubation phase, financing, and technical assistance. Run by Maroc PME, this program targets companies investing in "promising sectors", notably green growth, industrial innovation, and industry 4.0. Subsidies up to 30% of total investments can be provided. Support programs are also carried out by other national agencies, such as the Moroccan Agency for Investment and Export Development. This agency provides investment subsidies and assists companies in accessing world markets (see Table 2 in the annex).

20. For the dollar equivalent for all dirham figures, we used a current exchange rate of 9 dirhams per US dollar.

New Sectors: Success and Challenges

Support under the various versions of the Plan Emergence for the automotive and civil aircraft sectors facilitated genuine progress in Morocco's economic and export diversification efforts. In 2019, the automotive and aeronautics sectors accounted for 28% and 5.5% of Morocco's merchandise exports respectively, compared to 8.8% and 2.2% in 2008. Still, the Moroccan automobile sector, which is by far the most important, continues to depend heavily on imported components. Its contribution in terms of total employment and the balance of payments remains modest. Only 58% of the automotive sector's exports consists of domestic value-added, a large part of which relates to ancillary services supplied to automotive plants, and of domestically produced components. The automotive sector is by far the most dependent on imported parts and components (OECD TiVA database, 2018). Though the sector accounts for 8% of goods and services exports, it generates less than 1% of total value added (Social Accounting Matrix, 2018)²¹. The HCP ²²has recently released national accounts using a 2014 base year instead of 2007. This is expected to enable a more accurate assessment of the performance of the manufacturing sector, especially the automotive industry, given that the sector has expanded since 2012-2013. However, the value-added breakdown per industry doesn't identify the 'automotive industry' per se. 'Transportation equipment manufacturing', which includes the automotive industry, weighed around 1.5% of GDP in 2019.

Providing a precise estimate of these effects lies beyond the scope of this chapter, but the debate over the effective impact of the automobile sector on employment and the balance of payments is far from settled. High dependence on imported inputs, the surge in imports of machinery required for automotive production, and the high degree of automation (implying modest employment gains) continue to raise questions.

Morocco's new industrial sectors have probably improved the Kingdom's long-term growth prospects by creating opportunities to move up the value chain towards increasingly more sophisticated products (Hausman et al, 2014), yielding advances in the development of more sophisticated technical and managerial skills (El Mokri, 2016) that can be deployed in other higher value-added sectors. The automotive and aeronautical sectors have prompted the Government of Morocco to invest in vastly improved infrastructure, especially in the transport sector, most notably the Tanger-Med port complex, which has helped propel Morocco to 24th place globally in the 2020 ranking of the world's

21. This share is calculated taking into account only the car manufacturing activities, rather than overall automotive that includes also cabling and vehicle interiors and seats.

22. The High Commission for Planning (HCP, Haut Commissariat au Plan)

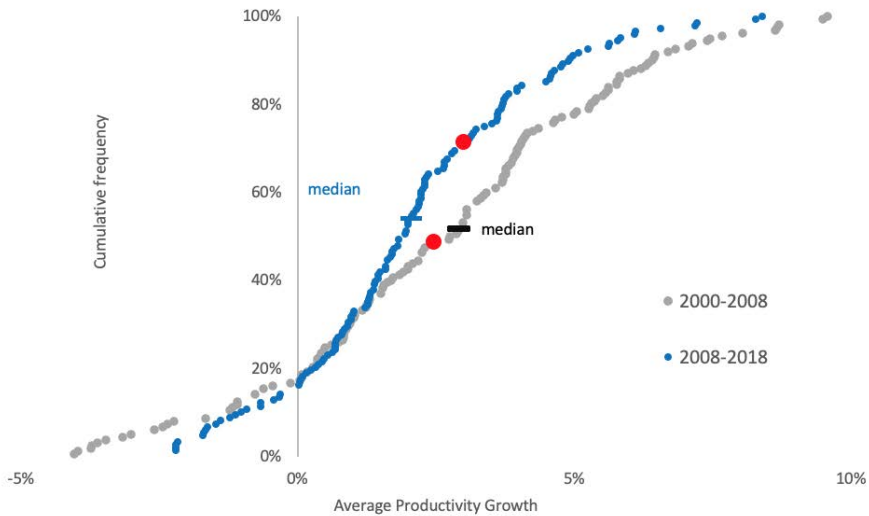
best ports (UNCTAD, 2020).

Morocco's public investment averaged 14.5% of GDP between 2007 and 2018. In 2021, public investment moved above historical levels to near 20%, up from 16.7% in 2020²³. The country's road network density and quality now ranks 30th and 40th globally, according to the World Economic Forum Global Competitiveness Report (WEF, 2019). Ties to the EU have been strengthened by the inclusion of Morocco in these sectors' regional and global value chains.

Despite the growth of automotive exports, the share of manufacturing in Morocco's GDP fell from 16.3% in the early 2000s to 13.7% in 2019. The recent release of national accounts adopting the 2014 base and available only since 2014, confirms the downward trend in the manufacturing share, standing at 14.7% in 2019. This share reached 15.3% in 2021, reflecting the rebound of manufacturing activities, and the struggles of the service sector in recovering to pre-COVID-19 levels. These dynamics are commonly found in developing countries and are not per-se worrisome, but they draw attention to the shortcomings of industrial policies that tend to give undue attention to the manufacturing sector, instead of adopting a holistic approach. The above trends run counter to what was envisaged in the Kingdom's latest Industrial Acceleration Plan, which set a target of increasing the share of manufacturing in GDP to 23% by 2020.

The manufacturing sector's relative decline in aggregate output has been accompanied by marginal employment gains in the sector, reflecting a global trend of rapidly improving labor productivity, and increased recourse to labor-saving technology (Ait Ali and Dadush, 2019). The limited gains in manufacturing employment parallel the decline in Morocco's ready garments and textiles sectors, which were hit hard by Asian competition and shed more workers than could be absorbed by sectors with higher levels of automated production (Ait Ali and Dadush, 2018). While Morocco has seen large-scale churning in manufacturing employment—with many jobs created and destroyed—net job creation has been minimal. The sector has witnessed a change from labor-intensive manufactures such as textiles and garments, to capital-intensive ones such as the mechanical sector, comprising automotive and aeronautics. Morocco's manufacturing sector exhibits high growth of labor productivity and, consequently, less-than-hoped-for job growth. The automobile sector is not unique in this regard. As shown in Figure 8, since 2008, Morocco's manufacturing sector stands out for strong productivity growth, outperforming most other countries, even in comparison to countries with similar per-capita income levels (Ait Ali and Dadush, 2018).

23. In here, investment is different from that of national accounts.

Figure 8. Productivity Growth Distribution, Per Country, worldwide²⁴

Source : UNSTAT, UNCTAD, ILO.

The Kingdom's newly emerging industrial sectors have contributed marginally to lowering Morocco's persistent trade deficit in manufactures, which the Industrial Acceleration Plan aimed to eliminate by 2020. Such a deficit, which represented 10% of GDP in 2014, has barely budged since then. Moreover, there can be no guarantee that improving the trade deficit in manufactures would reverse the employment trends described above given the labor substituting effects at play in emerging sectors. In a recent cross-country analysis, Lawrence (2020) found that the decline in manufacturing employment shares was as large in countries where the manufacturing trade balance increased as in those where it declined.

24. Initially, the sample included 177 countries. We used a box-and-whisker plot to exclude the outliers, within the sample. An outlier is identified as being larger than the third quartile by at least 1.5 times the interquartile range ($Q_3 - Q_1$), or smaller than first quartile by at least 1.5 times the interquartile range.

The Growing Importance of Trade in Services

Policy efforts need to be directed to harnessing more fully the economic and trade potential of Morocco's service sector, both as a source of domestic structural change and as a means of needed trade and investment diversification. Morocco's diverse service economy requires more attention in the Kingdom's industrial policies, one comparable to that given to manufacturing. Neglect of the service sector stems partly from weak inter-agency coordination and insufficient policy dialogue with stakeholders.

The service sector is an important source of growth for the Moroccan economy, contributing three-fifths of aggregate output in recent years. Due to the containment and its negative effects on commercial activities related to travel, transportation and accommodation the service sector contracted by 7.1 percent in 2020. However, the value added of the sector rose by 6.4% in 2021, mainly as a result of gradual recovery in the tourism and transport sectors.

Services are the most important source of employment in Morocco, supplying 46% of formal sector jobs by the end of 2021. Morocco's labor-productivity in services registered a 12% gain between 2010 and 2019, paralleling that achieved in Moroccan industry. While the Kingdom's value added per worker in services lags that of leading regional peers by significant margins, it has recorded the second highest productivity performance in services on the African continent over the past decade (after Egypt).

Trade in services is of central importance to Morocco's external accounts, producing surpluses equal to two-fifths of the country's structural merchandise trade deficit in recent years..

Data from the Office des Changes du Maroc reveal the severity of the impact that the COVID-19 pandemic exerted on Morocco's services exports, which stood at 13.8 billion at year-end 2020, a 28.9% drop compared to 2019. In 2021, services exports increased to 15.4 billion, representing 32.8% of total exports and contributing 11.6% of overall output. Expressed as a share of the value added of total Moroccan exports, the contribution of services is a fifth higher. And when considered in terms of local value added, Morocco's services exports are larger than those of manufacturing. Morocco's positive trade balance in tourism alone equates to 5% of GDP.

Morocco was the world's 47th largest exporter of commercial services in 2020, a rank that has changed little over the past decade. The Kingdom's trade performance in services places it second on the African continent, and fifth within the MENA region. Large inflows of worker and migrant remittances, accounting for 6.5% of GDP at latest count, further offset Morocco's goods trade

imbalance. The magnitude of such flows underlines the importance of securing greater benefits from the labor-mobility provisions that need to be anchored in Morocco's trade agreements and addressed more ambitiously in instruments of bilateral migration governance.

While Morocco's export propensity in services is high relative to its income level, the Kingdom's services export basket remains concentrated in traditional services, such as travel and transportation, while the share of modern services, such as business, professional, or ICT-related services, remains relatively low. The COVID-19 pandemic has provided a significant boost to the country's nascent e-commerce platforms and to digital services exports for which Morocco has harnessed its sophisticated regulatory ecosystem and vibrant private sector to rank among the top two African suppliers of ICT and digitally deliverable services (UNCTAD, 2020).

Efforts are needed to further diversify Morocco's services offering and reduce its high dependence on the travel and tourism sectors, which supply more than half of services exports and experienced a brutal decline in the wake of pandemic-induced travel bans and lockdowns. Despite sustained public investment and significant improvements in the Kingdom's connectivity-enhancing infrastructure, Morocco also needs to improve its overall logistics performance, which lags that of regional and income-group peers.

Morocco enjoys a Revealed Comparative Advantage (RCA) in a range of services linked to goods trade, travel, transportation, construction, and ICT-related services, including sophisticated business-process outsourcing activities. The Kingdom's emergence as a significant outward investor, particularly in Africa, attests to competitiveness gains and export potential in financial (retail banking and insurance), telecommunication and professional services.

Among its regional peers in Africa and (especially) the MENA region, Morocco maintains a relatively open trade regime for services, as reflected in the World Bank's Services Trade Restrictiveness Index²⁵. Like most countries, Morocco maintains its most onerous restrictions in the area of professional services. Still, Morocco's applied regulatory policies in services leave significant room for further market opening, whether pursued autonomously, or through new and/or enhanced commitments within its network of preferential trade agreements and at the WTO.

Morocco needs to ensure that services are comprehensively addressed in its trade agreements, something the Kingdom has so far only done with the United States and, most recently, in the the African Continental Free

25. See: <https://www.worldbank.org/en/research/brief/services-trade-restrictions-database>

Trade Area (AfCFTA) context. Morocco's participation, both formally and informally, in ongoing plurilateral negotiations at the WTO on e-commerce and investment facilitation for development, and in recently completed talks on domestic regulation in services, as well as the leadership role it is assuming in the AfCFTA context, offer key channels through which a more central role for services in boosting trade and enhancing domestic governance can be pursued.

Needed: New Thinking on Industrial Policy

The need to reinvigorate Morocco's economic policies, including the Kingdom's industrial policy, is evident, with growth currently hovering 1% to 1.5% below its long-term trend since 2011-2013. The lowest income earners in Morocco are struggling to find decent jobs. Many, particularly young workers, are giving up, with labor-force participation rates on a sharp downward trend, from 53% in 2000 to 44% in 2021, among the lowest in the world and recently exacerbated by the COVID crisis (World Development Indicators).

Although measuring the total cost of various industrial subsidy schemes is an arduous task, there is little doubt that support measures directed to Moroccan industry are expensive. For instance, around 2% of GDP has been mobilized within the industrial acceleration plan to support national and foreign investments in Morocco (Ministry of Industry, Trade and Investment and the Digital Economy, 2014). Moreover, incentives and subsidies provided to agriculture under the Morocco Green Plan ²⁶ amounted to 5.6% of total agriculture output and over 12.6% of output if indirect energy subsidies are included (Doukkali and Lejars, 2015). Protection and subsidies are the source of distortions, the cost of which for consumers is difficult to estimate. Yet, these policies appear to have made only modest inroads, at best, in boosting industrial employment and in reducing Morocco's trade deficit.

A careful reading of global trends and of Morocco's recent track record suggests that while manufacturing is a crucial sector deserving the attention of policymakers, it is unlikely to generate enough employment opportunities and to pull labor out of agriculture, or to address chronic underemployment challenges (Ait Ali and Dadush, 2019). This means that industrial policies, especially those designed to boost employment, must take a broader approach and ask how the growth of the service sector—which is by far the largest generator of new jobs—can be facilitated, notably through education and re-skilling.

26. Ministère de l'Agriculture, de la pêche Maritime, du Développement Rural et des Eaux et Forêts, (2021) << LE PLAN MAROC VERT BILAN ET IMPACTS 2008-2018 >>, Rapport.

In light of Morocco's diverse opportunities to earn foreign exchange, preoccupation with closing the Kingdom's merchandise trade deficit is clearly excessive and can lead to subsidization and protection of sectors where Morocco's comparative advantage, now or in the future, is not readily apparent.

An increasing share of services can be traded, including through digital means, and all too often policymakers have been prone to underestimating Morocco's potential in building on these sectors. Morocco enjoys a comparative advantage in services, as indicated by its significant trade surplus in tourism (5% of GDP), and in other services (2.4% of GDP). The COVID-19 pandemic hit the travel and tourism sector very hard, alongside related activities requiring face-to-face interaction between buyers and sellers of services, but the sector nonetheless retains great attractiveness and significant opportunities for export expansion. These include telecommunications, transport and logistics, finance, and business process outsourcing (Oxford Business Group, 2014). The large employment potential of such services and their ability to create good, knowledge-based, jobs deserve greater policy attention (Ait Ali and Msadfa, 2019).

SMEs in Morocco should be incentivized and supported in their efforts to penetrate regional value chains, such as those in the automotive sector. Few SMEs have joined the automotive cluster (World Bank, 2019; Piveteau, 2020). Encouragement of joint ventures with international firms could help address this challenge, enabling knowledge transfers while taking advantage of local firms' contacts and better knowledge of the Moroccan scene.

Paying More Attention to 'Horizontal' Measures

Significant results can be achieved by focusing on specific sectors of revealed or potential comparative advantage, in order to remove regulatory impediments, capture externalities, release credit constraints arising from imperfect financial markets, and prioritize the supply of trade and connectivity enhancing public goods, such as infrastructure (Rodrik, 2008).

Economic growth depends, crucially, on improving productivity levels, and increasing investment and labor-force participation levels across the whole economy (McKinsey, 2019), not just in a few sectors. This calls for a more balanced approach to include horizontal industrial policies that promote greater competition and market contestability, improved predictability (such as contract enforcement), innovation, research and development, and advanced skills formation.

Horizontal industrial policies can turn out to be less costly than vertically targeted (sectoral) interventions, involve lesser than attempts to 'pick winners', are more likely to create spillovers, and are also less likely to be captured by special interests (Brookings, 2017). Studies have shown that, in modern integrated economies, the competitiveness of individual firms depends as much on the efficiency of the surrounding ecosystem than on firm- or sector-specific factors (OECD, 2013).

Technological change, and increased specialization and interdependence, are blurring the lines between sectors and between services and manufacturing. Manufacturing productivity now depends critically on an efficient surrounding service infrastructure, ranging from logistics to telecommunications, finance, business and professional services. The Moroccan manufacturing sector is no different. For example, service inputs account for 8% of the gross output of the country's manufacturing sector, and Moroccan exports of manufactured products feature an even higher share of services content (21%). At the same time, Moroccan manufactures are increasingly used as intermediate inputs in services and agriculture in Morocco, rather than consumed directly or exported (Ait Ali and Dadush, 2019).

There is little need here to repeat the importance of improving the Moroccan climate for private investment along the lines suggested by, for example, World Bank analytics and the World Economic Forum's competitiveness reports. Both sources highlight skills, market contestability, and innovation capacity as critical shortcomings hampering Morocco's competitiveness²⁷. Remedies require mainly horizontal interventions to improve productivity and competitiveness across all sectors

27. We focus in this section on adoption of green technologies.

Figure 9. Global Competitiveness Index



Source : Global Competitiveness Report 2019.

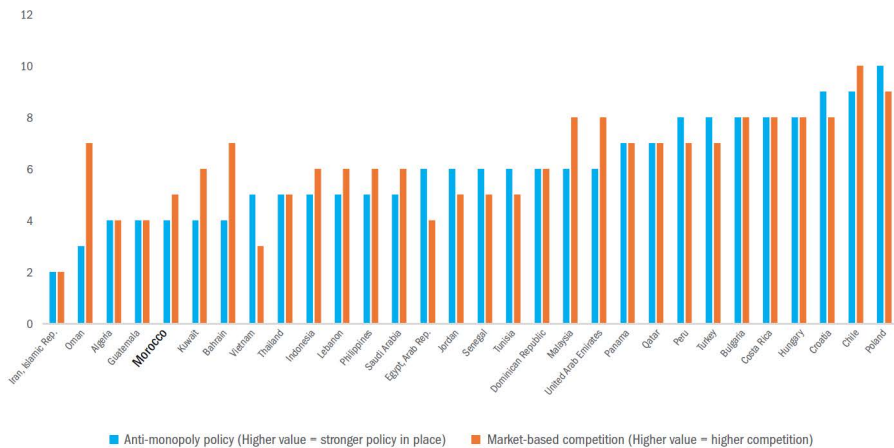
Skills

Strengthening Morocco’s educational system should be a top priority. While Morocco has succeeded in reaching the 100% school enrolment threshold, the quality of education still poses serious challenges to the country. Learning achievements remain poor, especially within the public education system (Ibourk, 2016). Benchmarks show that Morocco is an outlier internationally, and the unemployment rate of its university graduates is significantly higher than that of citizens with primary education or less. The skills mismatch between labor demand and supply is a major reason for this (Da Silva, 2017), and requires a rebalancing towards Science-Technology-Engineering and Mathematics (STEM) disciplines. Better and more vocational training is also crucially needed, as illustrated by the success of the technical skills supplied by the Office de la Formation Professionnelle et de la Promotion du Travail in the automotive industry under a public-private partnership scheme. Closing the skills gap is crucial to endowing the Moroccan economy with the capacity to innovate and adapt foreign technology to the local context.

Market Contestability

The lack of competition and market contestability in several sectors in Morocco impedes efficiency, holds back innovation, encourages rent-seeking behavior and raises prices for consumers and users in downstream industries. A more activist competition policy is needed. Compared to countries such as Chile, Costa Rica, Jordan, and Turkey, the risks faced by business in Morocco from weak competition policies are high, reflecting the undue influence of special interests and high tolerance for unfair business practices, discrimination against foreign companies, and government price setting (World Bank, 2019; Figure 10).

Figure 10. Competition Indicators for MENA and Selected Comparators for Morocco, 2018



Source: The Transformation Index BTI, 2018.

Part of the reason for Morocco's weak market contestability is the prevalence of state-owned enterprises (SOEs) in 23 sectors, compared to an average of 15 in a large sample of advanced and developing countries (OECD-WBG Product Market Regulation Database). The participation of SOEs in the Moroccan economy approaches that of China (30 sectors) and Egypt (29 sectors), both of which maintain state-driven development models (World Bank, 2019). Compared to countries in the Middle East and Africa, Morocco's SOEs are prevalent in more sectors than South Africa (18 sectors), Kuwait (17), Kenya (15), and Senegal (14).

Green Technologies

Morocco's recurring droughts dampen agricultural output and make farm incomes volatile and unpredictable from one year to the next. They provide a somber reminder of the importance for Morocco of contributing to the global effort to contain carbon emissions and limit the rise in global temperatures. Adoption of green technologies is needed in Morocco as elsewhere, and Morocco has committed to such a course as a signatory of the Paris Agreement on Climate Change. Moreover, given the country's abundant capacity to deploy solar and wind resources in power generation, and its proximity to Europe, decarbonization can represent a significant export opportunity for Morocco.

The European Union has agreed a law setting a 'carbon tax' on some carbon-intensive imports to protect some of its industries from competition from jurisdictions where emission regulations are less strict. As a first step, the tax, known as CBAM (carbon border adjustment mechanism), will cover five sectors: electricity, cement, fertilizers, iron and steel, and aluminum. Fertilizers are among the top Moroccan exports to Europe, amounting to around 400 million per year. Once the CBAM is introduced and tested, it may extend to more complex products such as automobiles, another important export sector for Morocco.

By accelerating its adoption of green technologies, Morocco can not only avert significant threats, but also gain a competitive advantage over countries that lag in this regard.

Does Morocco suffer from an anti-export bias?

There is some evidence that government policies contribute to an anti-export bias in Morocco. Though the evidence presented here is not conclusive, the question requires closer scrutiny because of the implications for Morocco's trade and industrial policies.

Small developing countries such as Morocco need vibrant export sectors to achieve scale economies in world markets and to enable imports of essential goods and services, from petroleum to advanced machinery, which are not available at home. Government policies can facilitate exporting, but they can also make it more difficult to export, for example by tilting the economy's tax and price structure in ways that make it less attractive to invest in tradables and more attractive to invest in the non-traded sector (such as construction) or, artificially, in import substitution.

When Morocco's average applied tariffs were much higher than they are today (despite the recent tariff hikes on some products), the incentives to import-substitute were strong, and there was much concern about anti-export bias (World Bank, 2006, 1996).

Morocco's anti-export bias due to tariff protection is less than it was because of its network of preferential agreements but has not disappeared. For example, high MFN tariffs, which affect mainly Asian imports, make it less likely that Morocco will participate in global value chains involving dynamic Asian partners.

Moreover, recent studies have highlighted other possible sources of anti-export bias, drawing attention to the contrast between Morocco's high rates of domestic investment—which reached levels comparable to those of Asian developing countries prior to the global financial crisis—and its modest growth rate in recent years (Agenor and El Aynaoui, 2015; Abbad, 2017). The low marginal productivity of Morocco's rapidly expanding capital stock appears to be partly a reflection of a weak investment climate and low private investment, a tendency to incentivize investment in housing and real estate, and a high share of public investment (14% of GDP), mainly dedicated to infrastructure, the efficiency of which is difficult to assess.

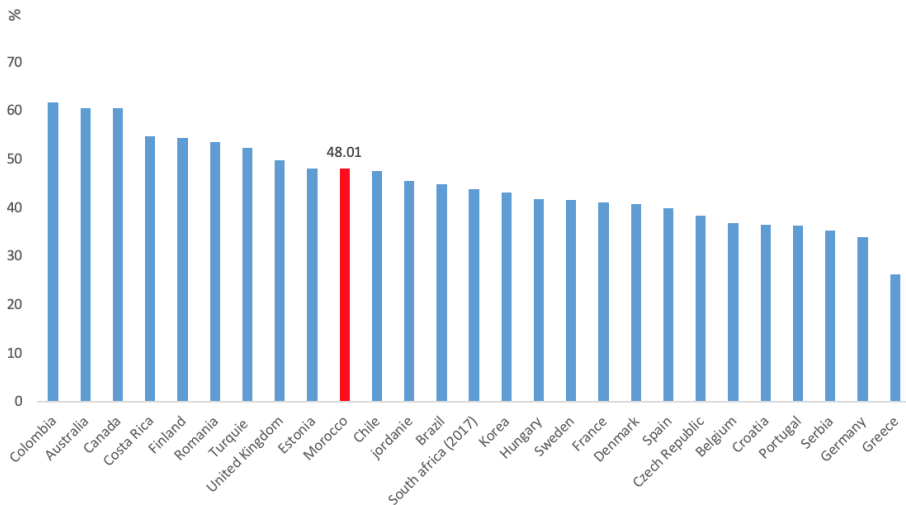
Although infrastructure investment, especially that on transport, can facilitate trade, it also draws heavily on domestic labor, land, and domestic services, raising wages and land prices, stimulating activities that are largely non-traded. One effect of infrastructure investment, well documented in the literature, is to raise property prices (Panchapagesan and Venkataraman, 2021), and to attract investment in real estate.

While inward capital flows are free to reach Morocco (one-fifth of which is directed to real estate), outward capital flows are severely restricted. FDI outflows are least regulated, but they still require authorization if they exceed 200 million dirhams per year. Consequently, Moroccan institutional and individual investors have little choice but to direct their savings to domestic activities. In theory, the investment could be directed to any sector, including traded ones, but, given the limited scope of the Moroccan stock market and of private investment vehicles, a disproportionate amount of investment goes into real estate. For instance, the annual turnover ratio in the Moroccan stock market hovers around 6%, while the averages among middle- and lower-income economies stand above 100% and 40% respectively. The structure of taxation and government expenditure also favors the construction sector. To address Morocco's housing deficit, tax exemptions for real estate are especially favorable (Ministry of Economy, Finance and Reform of the Administration, 2021). The sector ranks at the top

of beneficiary sectors of tax expenses, drawing more than 22% of the total.

Unfortunately, data on the share of construction in total investment is not generally available for developing countries, through it is available for OECD countries. As shown in Figure 11, the share of construction in total investment in Morocco was 48% in 2018, higher than developing countries such as Jordan and Brazil, and also higher than in many advanced countries. But Morocco cannot be described as an outlier. For example, construction accounts for 60% of total investment in Colombia and 55% in Costa Rica.

Figure 11. Share of Construction in Total Investment, Selected Economies (2018)



Source: OECD.

Morocco's partially closed capital account helps sustain a pegged exchange rate regime (with horizontal bands since 2021). Together, these features have contributed to a sound and stable macroeconomic framework with low inflation. Such stability, which has continued over a long period, has helped sustain investor confidence, including that of foreign and domestic private investors in the traded sector. However, the tendency to prevent the nominal exchange rate from depreciating in the face of adverse external shocks, such as rising oil prices and global recessions, has frequently hurt Morocco's competitiveness²⁸.

28. There is a growing literature arguing that a country's macroeconomic framework is a determining factor

For example, while the currencies of many emerging economies depreciated to absorb the shock arising from the financial crisis of 2008, the dirham appreciated in real terms (Ait Ali, 2018), hampering Morocco's tradable sector. During the COVID-19 crisis, the dirham appreciated again, while some emerging currencies depreciated to cushion the impact on the domestic economy and sustain price competitiveness. In the face of external shocks, which slow the economy, the reluctance to rely on price adjustment has also contributed to large fiscal and external deficits and a build-up of public debt, crowding-out the private sector.

Large private remittances, hovering around 6.5% of GDP in a typical year, are a structural feature of the Moroccan economy, and one that brings big benefits to the most vulnerable Moroccan households. Remittances nevertheless bid up domestic spending, including on real estate, and add upward pressure on the exchange rate. The point here is not, of course, that the Government of Morocco should discourage remittances, but that there needs to be greater awareness of their effect on competitiveness and of the risk that government policies compound the bias against the export sector.

Indeed, given the preoccupation of Moroccan authorities with the merchandise trade deficit, and the strong tendency to engage in industrial policies that favor the traded sector, it is legitimate to ask whether other aspects of Moroccan policies are working—unintentionally—in the opposite direction and are encouraging investment in domestic activities.

Steps that can facilitate Morocco's exports include greater selectivity in public-infrastructure projects, reduced government deficits and improved efficiency of public spending, a tax structure less-favorable to real-estate investment, increased exchange rate flexibility (on which the Government of Morocco has already embarked), and a gradual liberalization of the capital account. Such measures stand to improve Morocco's competitiveness and reduce the pressure on policymakers to engage in potentially wasteful vertical industrial policy interventions. Taking a more holistic view of Morocco's external balance, in which the importance of remittances and tourism exports are recognized, and where the merchandise trade balance plays a less central role, would also be salutary.

for sustained structural transformation (ILO, 2014). (Rebelo 1997) concluded that pegged exchange rate regimes tend to induce a contraction of the tradable sector, fuel the production of non-tradables, and lead to a sharp appreciation of relative prices, particularly of real estate assets.

Trade Reforms Can Play a More Important Role in Supporting Morocco's Diversification

The domestic reforms outlined in this chapter are politically challenging and administratively complex. Raising tariffs is far easier to do. But it is also the wrong recipe. Instead, Morocco's trade reforms should address the following issues:

- Negotiation of an expanded and deepened agreement with the EU that addresses Morocco's needs and features not only features standard EU templates (which, for example, exclude discussion of Mode 4 temporary movement of workers and agricultural subsidies).
- A new and improved bilateral agreement with the EU must extend to services.
- Further efforts need to be directed towards reducing non-tariff impediments to trade, including in the service sector, with a view to attracting increased FDI.
- Determined efforts need to be directed to diversifying Morocco's exports geographically to exploit new opportunities in sub-Saharan Africa, North America, and Asia, as well as to major European markets such as Germany, the United Kingdom, and Sweden (Dadush and Saudi, 2019).

Morocco should also step up its presence in the WTO, where it can play an important role as an African country supportive of multilateral disciplines and their enforcement through a revived and reinvigorated dispute settlement system. These reforms require improved capacity and increased resources in the responsible agencies within the Ministry of Industry and Trade.

Summary and Conclusion

The broad thrust of Morocco's trade and industrial policies over the last three decades, which has been to more closely integrate the economy into world flows of goods, services, and capital, has been and remains appropriate. Moroccans have derived large benefits from such policies. The causes of Morocco's slow growth and high trade deficits in recent years lie primarily in various domestic impediments to growth, which have remained insufficiently addressed. These became more evident as the international environment deteriorated in the wake of the global financial crisis of 2008 and, most recently, of the COVID-19 pandemic. Such domestic impediments include a shortage of skills, inadequate domestic market contestability, and macroeconomic policies that create a bias towards non-traded sectors. It is also clear that there is much to be done to improve and sharpen the design of Morocco's industrial policies, which are overly concerned with manufacturing, and do not pay sufficient attention to the growth and employment potential of services.

On the trade front, Morocco needs to deepen its integration with the European Union while diversifying its exports towards the world's fastest-growing regions. There is an urgent need to pay greater attention to the opportunities available in trade and FDI in services, including in the digital realm, where Morocco has a clear comparative advantage, dovetailing with the required redirection of industrial policy towards the sector.

Questions for further research on trade and industrial policy

1. Do Morocco's structural and macroeconomic policies induce an anti-export bias, especially in light of large remittance inflows?
2. What data is required to assess the precise extent of state support in various traded sectors of the Moroccan economy is insufficient? A systematic effort to obtain this information is required.
3. What are the implications for Morocco's trade of tighter climate regulation in the European Union and other large markets for Moroccan exports, especially in light of the intention to initiate a carbon border adjustment mechanism?
4. What is the likely impact of Morocco's New Development Model on its attractiveness for international investors?
5. What is the likely impact for Morocco's trade balance and economic growth of government support for major foreign-invested manufacturing sectors, starting with the automotive sector?

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Annex

Table 1. Objectives, Targets, and Resource Envelopes for the Various Generations of Industrial Plans from 2005 to the Present

Name of the program	Objectives	Priority Sectors	Targets	Instruments and financial means
Plan emergence of 2005-2009	Towards a repositioning of the manufacturing sector on relatively new segments called "Global Business of Morocco".	<ul style="list-style-type: none"> - Automotive - Aeronautics - Offshoring - Electronics - Transformation Seafood Products - Textile and Leather - Agri-food 	<p>Offshoring: 100,000 more jobs and 15 MDHS (1.7 billion US) of Value Added (VA)</p> <p>Automobile: 70,000 to 80,000 jobs and 10MDHS (1.1 billion US) in VA Value</p> <p>Aeronautics: 10,000 jobs, 3MDHS (0.3 billion US) in Added Value</p> <p>Electronics: 10,000 jobs, more than 5MDHS (0.6 billion US) in VA</p> <p>Seafood Processing: 35,000 jobs, 3MDHS (0.3 billion US) in VA</p> <p>Textile and leather: 50,000 jobs, 5MDHS (0.6 billion US) in VA</p> <p>Agri-food: 80,000 jobs, 5MDHS (0.6 billion US) in VA</p>	<p>Investment subsidy up to 20% of total project costs for highly promising companies.</p> <p>Current expenditures subsidies, up to 60% of the cost. (R & D, Training, Strategy design...)</p> <p>Well-equipped industrial zones.</p> <p>- Corporate tax exemption for 5 years and then 8.75% for the next 20 years, upon fulfilling specific conditions.</p>

<p>National Pact for Industrial Emergence (2009-2014)</p>	<p>Fostering comparative advantage, with a focus on specific sectors.</p>	<ul style="list-style-type: none"> - Offshoring - Automotive - Aeronautics and Space - Electronics - Textile and Leather - Agri-food 	<p>Employment: Creation of 220,000 jobs</p> <p>GDP: Increase of the industrial GDP by an additional 50 MMDHS. (5.6 billion US)</p> <p>Exports: Generation of an additional export volume of 95 MMDH. (10.6 billion US)</p> <p>Investment: 50 MMDH of private investment in industrial activity (5.6 billion US)</p>	<p>Investment subsidies, backed by the industrial investment fund, reaching 10% of the project for Automobile sector.</p> <ul style="list-style-type: none"> - Corporate tax exemption for 5 years and then 8.75% for the next 20 years, upon fulfilling specific conditions. -The support of the banking sector (competitive rates, support for restructuring, support for internationalization, ...) - New generation of industrial Zones <p>Total Direct subsidies: 1% of GDP.</p>
<p>Industrial Acceleration Plan (2014-2020)</p>	<p>Ambitions of capturing a larger slice of the value chain locally, hence the name of “the ecosystem plan.”</p>	<ul style="list-style-type: none"> - The automotive industry, - Aeronautics - The textile and leather industries, - The pharmaceutical industry - Chemistry - Trucks and bodywork - Building materials 	<ul style="list-style-type: none"> -Creation of 500,000 jobs in the industry -Increase in the share of industry GDP to from 14% to 23%. -Rebalancing of external accounts through export promotion and import substitution 	<p>Investment subsidies, backed by a new Industrial Fund of 20 MMDH (2.2 billion US), 2% of GDP.</p> <ul style="list-style-type: none"> - Preparation of industrial land (1000 hectares) -Grants for vocational training.

Industrial recovery plan (2021-2023) (Under design)	Conquering new markets, based on decarbonized manufacturing sector and implementing an import-substitution strategy	Almost all manufacturing activities. Import-substitution concerns: Textile and leather (34%), Transports (15%), Mechanic and Metallurgic Industries (10%)	Substitute for 19% of manufacturing imports. Employment creation of at least 50,000 to 100,000 jobs. Increasing integration rate for Automobile industry from 60% to 80%.	National Preference in the public procurement. Investment subsidies for entrepreneurs willing to invest in « Project Bank ». Dedicating an increasing share of renewables to Manufacturing. Preparation of industrial land. Rise of MFN tariffs up to 40% Amendment of Morocco/Turkey FTA
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Sources: “Plan émergence”, “Contrat programme du pact national pour l’émergence industrielle” and “Mise en oeuvre du Plan d’Accélération Industrielle” Ministry of Industry, Trade and Investment and the Digital Economy, and the Minister’s presentation to the national business council of the General Confederation of Moroccan companies (CGEM) available at “Media-24 website”.

Table 2. Projects selected for import substitution plans

Projects selected for import substitution plans	Type of Grant
The Project Bank	To accompany the project leaders in the various phases of development of their projects
The Morocco SME offer	<p>The company benefits from a non-refundable growth investment premium at a rate of 30% of the Investment Program (IP) including tax, capped at 2 MDH for very small companies and 20% of the IP including tax, capped at 10 MDH for small or medium-sized companies.</p> <p>80% of the cost of support in development strategy / restructuring, operational performance, market development, etc.</p> <p>TATWIR Program²⁹ (GREEN GROWTH):</p> <p>Value proposition: support for investment, support for innovation and creativity, advice and expertise for the green transformation of industrial SMEs.</p> <p>Maroc SME's contribution: -An investment premium of 30% to support the financing of technological investments.</p> <p>-A refundable aid of 5% for SMEs and 10% for very small enterprises of the investment project for the financing of the working capital for seed projects.</p> <p>-Up to 50% of the expenses incurred in innovation and development of green products</p> <p>-Up to 80% of the cost for SMEs and 90% for VSEs for consulting and technical expertise</p> <p>-Equity contribution for SMEs/VSEs: 10%.</p> <p>TATWIR (Startup) Program:</p> <p>Value proposition: Pre-incubation: selection of project ideas and support for their structuring</p> <p>-Incubation: support for selected startup project leaders to transform their ideas into a viable project "INCUB-IDEA" until the startup's effective launch "INCUB-START".</p> <p>-Support to industrialization</p> <p>Morocco SME's contribution: A total support of the phases of pre-incubation and incubation.-Additional support of 50% of the project of creativity, design and development of industrial product with a ceiling of 1,5 MDH TTC.</p>

29. The "TATWIR" program is a tailor-made integrated offer including investment support, innovation support and consulting & technical assistance. It targets small and medium-sized industrial companies investing in promising sectors such as green growth, industrial innovation and industry 4.0. This program also supports the pre-incubation and incubation of startup project holders, the acceleration of SMEs with high growth potential, as well as investment projects related to the industrial integration of growth sectors.

	<p>-Financial support 30% capped at 2Mdh TTC/project in the form of investment support for selected industrial startup projects.</p> <p>TATWIR Program (AUTOMOTIVE INTEGRATION):</p> <p>Value proposition: Technical support for equipment manufacturers to meet the requirements and consultations of the principals. Support for automotive product development. Support for the investment needed to integrate into the value chains of automotive suppliers.</p> <p>Morocco SME's Contribution:</p> <ul style="list-style-type: none"> -80% of the amount of technical support services -50% of the expenses of the product development and co-development project. -30% of the investment project (investment premium) -5% reimbursable aid
The offer of Moroccan Agency of Development of Investments and Exports (AMDIE)	<p>The investment subsidy concerns investments greater than or equal to 100 MDH or creating at least 250 direct jobs, direct subsidies on the ground, external infrastructure, vocational training and others for investments greater than or equal to 100 MDH, an exemption from VAT and import duties</p>
The Export Offer	<p>Benefit from an orientation towards international markets, the identification of international contractors or the improvement of the knowledge of project leaders in the field of international trade.</p> <p>Aspiring or seasoned industrialists can benefit from: market data, standardization, local market access, training, technical assistance, administrative facilitation, the Industrial Development and Investment Fund (FDII), land. The investment premium can go up to 30% of the investment program, capped at 30 MDH.</p>
Industrial land/training	<p>To make available to project developers all available data related to the different offers, namely, the business model, the size of the available lots, the average transfer/rental prices, the specifications of the area and the basic/ optional services provided.</p> <p>A varied offer responding to the needs in skills of project leaders to ensure a better match supply / demand, is proposed. Among the devices available, those of the OFPPT, higher education, institutes with delegated management, the INMAA program, Cap Compétences Accélération Industrielle, training/employment measures of ANAPEC, namely TAEHIL, IDMAJ, or that of direct aid to training.</p>

Source : Ministry of Industry and Commerce

Table 3. List of products affected by the increase in customs duties

	Amending FinanceAct 2020	Finance Act 2021	Finance Act 2022
List of products affected by the increase in customs duties	<p>Products affected by the 40% duty increase:</p> <p>Food products: Coffee, cocoa, spices, fruit and vegetable juices, watermelons and melon, mineral water and non-alcoholic beverages, crude or refined sunflower oil, other crude or refined vegetable oils, fruit preserves and jams, sugar preparations, crude or refined sugar, pastries and cereal-based preparations, fresh or dried fruit, frozen or in brine</p> <p>Textile and leather goods: Made-up clothing and hosiery, footwear, blankets, linen and other made-up textile articles, special fabrics, velvet, lace and embroidery, fabrics impregnated or coated with various materials (consumption), parts of footwear, bags, trunks and miscellaneous leather goods</p> <p>Household goods: Refrigerators, dishwashers and other household goods, Crockery and ceramic ware, Household hardware and home economics, Stoves and heaters</p> <p>Materials: Wires, cables and other insulated conductors for electricity, Accessories for piping and metal construction, paints, varnishes and mastics, tubes and pipes made of copper, Rubber and articles made of rubber, Marble; granite; gypsum and other stones, Cork and various articles made of cork, Copper wires, rods and profiles, Articles made of stone, plaster, cement, or similar materials, Ceramic products</p> <p>Industrial equipment: Piston engines; other engines and parts thereof, Brooms, brushes and other similar articles, Apparatus for the production of cold for industrial use, Fittings and similar articles, Miscellaneous articles of wood, of esparto work or of basketwork</p> <p>Health products: Drugs and other pharmaceutical products, Furniture; medical-surgical furniture; bedding and lighting fixtures, Medical-surgical instruments and devices...</p>	<ul style="list-style-type: none"> - Polyester padding fiber: 17.5% instead of 2.5%. - Toner cartridges: 17.5% instead of 2.5%. - Certain upholstery fabrics: 40% instead of 17.5%. - Chocolate and cocoa: 40% instead of 17.5%. - Reinstatement of the TIC on tires: 3DH/Kg. - Hosiery fabrics: 40% instead of 10%. - Parasols, umbrellas and parasols: 40% instead of 2.5%. - Re-imported goods having acquired Moroccan origin after their transformation under economic customs regime: 2.5%. - Importation of prohibited goods: fine from 3.000 to 30.000 dirhams. 	<p>Products affected by the 40% duty increase:</p> <p>Pre-cooked and frozen poultry patties</p> <p>Tubes and incandescent lamps</p>

	Other products : Tobacco, Seats, furniture, mattresses and lighting articles, Commercial cars, Tyres and tires, Parts and pieces for cars and passenger vehicles, Miscellaneous articles of glass, Miscellaneous articles of iron or steel, Miscellaneous articles of rubber, Writing and office articles ,Paper and paperboard ;Miscellaneous articles of paper and paperboard; Finished paper and articles of paper, Carpets and floor coverings, Miscellaneous books and printed matter, Hairdressing combs, hairpins and similar articles for hairdressing, Printing or writing ink (semi-finished products), Toys, games and amusement or sports articles...		
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Source : MEF

3

UNLEASHING THE POTENTIAL OF AGRICULTURAL TRADE IN MOROCCO¹

Klytchnikova, A. Stojanov, & F. Ezzahra Mengoub

Key Messages

- **Given the central role of agricultural trade, and particularly export growth and diversification, for Morocco's building forward better agenda,** this Chapter takes a close look at the evolution of Morocco's agriculture exports (excluding fisheries products), documents the extent of their diversification, and advances recommendations to catalyze their sustainable growth. Morocco's efforts to open up to international markets have to date been marked by the signing of Preferential Trade Agreements (PTAs) with 53 partners, covering 82% of Morocco's total agricultural exports. We review the significance and likely impact of Morocco's PTAs by focusing on three of Morocco's PTAs: with the United States, the European Union, and the United Arab Emirates.
- **Export performance is a critical factor for the sector's overall future growth trajectory.** Over four-fifths of Morocco's agricultural exports go to trading partners with which the Kingdom has entered into PTAs, making such

1. This Policy Note was prepared by Irina Klytchnikova, Aleksandar Stojanov, and Fatima Ezzahra Mengoub. Review and comments by Rachid Doukkali, Abdelazziz Ait Ali, Uri Dadush and Pierre Sauvé are gratefully acknowledged.

agreements important vehicles for boosting agricultural growth. Although Morocco's trading partners are quite diverse, the bulk of the country's agricultural exports—about 72%—goes to the European Union. In that context, the agriculture trade policies of the EU, especially in the context of the new European Green Deal and the EU Farm to Fork Strategy, are of paramount importance for the future of Moroccan agriculture.

- **Agricultural products play a crucial role in Morocco's trade performance. This holds not only for exports, but also on the import side.** Morocco's agricultural imports remain highly variable from year to year and depend on levels of domestic agricultural production, which in turn depends heavily on rainfall levels. This situation increases Morocco's vulnerability to international market fluctuations, especially since close to a third (30%) of the country's agricultural imports consists of cereals, one of Morocco's staple food products that is critical for the Kingdom's food security.
- **An important policy question, on which this chapter sheds some light, is the extent to which Morocco can continue to increase the growth of its agri-food exports, and accomplish further diversification in terms of products and markets.** Export diversification can help stabilize export earnings by reducing Morocco's vulnerability to external conditions. It can also enhance economic growth and stimulate the structural transformation of the economy by focusing on higher domestic value addition in agri-food exports.
- **Evidence points to an already successful performance of Morocco's traditional agri-food exports, especially when its performance over time is compared to those of benchmark countries (e.g. Malaysia, South Africa, and several countries in Latin America).** Morocco is among the world's top five exporters of tomatoes, is the biggest player in the global green beans market, and a significant exporter of other vegetables, citrus, strawberries, and other fruit and berries. Yet the full potential of Morocco's agricultural and food exports has yet to be realized. Further diversification can take place either through the expansion of value chains, through penetration of new markets to which preferential access is secured, such as those of Central and Eastern Europe, the Gulf countries, and sub-Saharan Africa, as well as deepening existing free-trade agreements by covering Sanitary and Phytosanitary (SPS) and Technical Barriers to Trade (TBT) standards. Diversification can also result from the emergence of new products with higher domestic value added, which support the growing global demand for foodstuff associated with changing lifestyles and consumption habits, including healthy and green products (e.g. nuts and processed fruit and preparations).

- **The potential to increase agricultural exports in the short run may however be limited, as the global economic downturn is not likely to facilitate the further growth of Morocco's traditional agricultural exports.** This makes it more urgent to focus on building up Morocco's commercial advantage through investments in domestic capacity, logistics and transportation networks, and product quality, food safety, and traceability systems. Product innovation, access to niche markets and the development of high value-added agri-food products will be key to Morocco's diversification of agricultural exports in the long term.
- **To realize the full potential of Morocco's existing and potential future trade agreements, a number of domestic reforms are needed to improve agricultural productivity, facilitate job growth, catalyse the development of more inclusive value chains, and promote best practices to improve the sustainable use of inputs.**
- **A significant and increasingly binding constraint for the future growth of Moroccan agri-exports, and for Moroccan agriculture in general, is undoubtedly the severe scarcity of water and increasing frequency of drought years linked to evolving climatic conditions.** Water availability has to be a central part of future agri-export promotion plans, including the difficult questions of water allocation for exports and for domestically-oriented production in drought years.
- **Morocco's commitment to promoting climate-smart and digitally-enhanced agriculture through the Green Generation Strategy 2020-2030 (GGS) offers an opportunity for the Kingdom to position its agri-food sector.** Sustainable, low carbon, organic, and/or certified agri-food products may provide a competitive edge on European markets, and with other trade partners where demand is rising for healthy, sustainable, and low carbon agri-food products.

1. **Agriculture: The Mainstay of Morocco's Economy**

Agriculture has always been considered one of the Moroccan economy's main engines of growth. Since independence, the Moroccan government has placed considerable emphasis on the agricultural sector, with agriculture benefiting from significant investment to promote and improve productivity and competitiveness. Agriculture is a major source of employment in Morocco, particularly for commodities such as tomatoes and green beans, for which Morocco is the world's leading exporter. More than a third of total employment and more than half of female employment in Morocco is in agriculture. The sector's true importance in the economy is even greater, since it generates major employment through its manifold linkages to the Kingdom's agribusiness, services, and manufacturing sectors. The sector is an important source of incomes and livelihoods, with 74% of Morocco's rural population relying directly or indirectly on agriculture for income (DEPF, 2019). Morocco is a net food-importing country, with more than half of the domestic cereal it consumes supplied through imports. Agriculture is also one of Morocco's leading sources of foreign-exchange earnings, after tourism revenues and remittances from Moroccans abroad. Agricultural products contributed about 20% of Morocco's total exports in 2019.

Like the rest of the MENA region, Morocco faces increasing water scarcity and suffers from frequent droughts and adverse climate impacts. Somewhat more uniquely for the region, Morocco's agricultural landscape is very diverse, resulting in duality of rainfed and irrigated production systems. Agricultural areas span several agroecological zones, ranging from wetlands in the north, to semiarid zones in the middle and northeast, and to arid and pre-Saharan areas in the south. The east has oasis agriculture, whereas mountainous areas are split into humid and semi-arid mountainsides. The irrigated agricultural areas include several types of irrigation systems, some with dams and large-scale irrigation systems, others with traditional irrigation by small and medium hydraulic systems, and still others with private irrigation from groundwater. In drought years, water scarcity has a major impact on domestic output of staple and, to a lesser extent, export crops, adversely affecting food security.

Morocco's strategy for the agriculture sector implemented during the last decade, the Green Morocco Plan (GMP), has led to the doubling of agricultural production. The sector benefitted from significant investment in excess of 104 billion dirhams from 2008 to 2018 (of which 39% from public investment), underpinned by extensive policy, legal, and institutional reforms. Public investment financed through the GMP over the last decade promoted the large-scale adoption of climate-smart agriculture practices in Morocco, mainly

through modernizing irrigation schemes and improving water use efficiency in agriculture. The bulk of that investment financed public irrigation infrastructure and incentives—mainly universal subsidies—for farmers to adopt drip irrigation and precision agriculture, and to diversify production from cereals to high-value crops including olives, dates, other fruit trees, and vegetables. The area under drip irrigation increased to more than a third of the country's total irrigated area. A large shift from cereals to high-value agricultural products occurred. Water-use efficiency in irrigation improved. At a macro level, the GMP leveraged significant investment and improved the productivity and resilience of the agriculture sector. Progress in job creation and value chain development was more difficult. The estimated number of 250,000–300,000 full-time equivalent jobs created in agriculture was well below the government's target. These and other achievements of the GMP were highlighted in the recent evaluation carried out by Government of Morocco.

Despite the GMP's success in increasing overall agricultural production in Morocco over the past decade, challenges remain. The government is addressing the challenges through the recently launched 2020–2030 Green Generation Strategy (GGS). The first challenge is increasing job creation faster than in the past, and generating attractive employment opportunities for young people in agriculture. The second is redoubling the efficacy of investment and agricultural policies in promoting agriculture's resilience to shocks and climate change, in a worsening context of more frequent droughts, scarcer water, and the damaged global economy. Creating youth employment and enabling rural entrepreneurship are high priorities on government agendas across sectors. Finally, the scarcity of water and fertile land imposes a binding constraint on agri-food sector growth prospects in Morocco.

Through the GGS, the government is building on earlier progress to strengthen agri-food value chains and higher value-added segments of the sector, making human capital the lever of growth at the center of the new approach. A critical role is envisioned for agriculture and the promise of digital agriculture and other innovations to jump-start rural transformation. The global economic disruption caused by the COVID-19 crisis has reinforced government commitment to the ambitious GGS agenda, as the government engages in cross-sector measures and sweeping reforms, such as including smallholder farmers and all agricultural workers in the formal social security protection system. Promotion and diversification of agricultural export growth, and a shift to an agri-food system with a higher share of high-value added agricultural products, are also important parts of that transformation agenda.

A series of reforms and investments implemented as part of the GMP have contributed to the strong recent performance of Morocco's agricultural exports. Exports of agri-food products increased by 9.4% per year on average between 2009 and 2019, rising from a value of 20.1 billion dirhams in 2010 to 49.5 billion dirhams in 2019. Such achievements reflect a long series of reforms implemented by the Government of Morocco to improve agricultural sector performance and promote exports. Given that water resources are scarce and variable in time and space in Morocco, relatively complex irrigation systems have been set up and have enabled the cultivation of about 1.6 million hectares under irrigation, or about 18% of the country's total cultivated agricultural area (Fellah Trade, 2019). These irrigated perimeters have helped mitigate the effects of rainfall variability on agricultural production, and have facilitated the emergence of efficient and competitive producers who export agricultural products.

The Moroccan government has also undertaken several reforms to promote trade in general, offering enhanced market access opportunities for agricultural products. Morocco's accession to the World Trade Organization in 1995 marked its renewed commitment to trade liberalization and openness to the world. WTO membership occurred when trade liberalization had already been undertaken both unilaterally and through regional integration initiatives. Currently, Morocco is a party to six free trade agreements, the Generalized System of Trade Preferences and duty-free access for least developed countries (World Bank, 2021). This chapter devotes particular attention to the impact of the preferential trade ties linking Morocco to the European Union, the United States, and the United Arab Emirates². Other important trade agreements signed by Morocco are the Agadir Agreement, the Pan-Arab Free Trade Area (PAFTA), and the Turkey-Morocco Free Trade Agreement. While the latter are important for Morocco's diversification, including in agricultural trade, we do not assess them here, focusing instead on the scope for growing exports to the European Union with the new Green Deal; the United States, where high trade complementarities exist; and the United Arab Emirates, where a high potential for agricultural export growth exists with the opening up of direct shipping routes linking Tangier and Jeddah.

Morocco has undertaken several reforms to improve the competitiveness of its agricultural products in foreign markets. Following Morocco's

2. Given that the United Arab Emirates are located far from Morocco, and that the Kingdom already exports agricultural products to the UAE, this shows that Morocco can capitalize on this agreement to increase its agricultural exports, and can also explore the possibility of exporting to other distant countries (with which it already has agreements, such as the countries of the Arab League). In addition, the UAE benefits from adequate infrastructure to receive and store fresh products exported by Morocco (compared to African countries, which do not have sufficiently developed cold chains and storage facilities for fresh produce). In addition, Morocco has redoubled its efforts to increase its agricultural exports to the Arab Gulf countries. In 2014, it established a Tangier-Jeddah direct line to improve access to the Arab Gulf countries.

independence, the government initially pursued a policy of import substitution and intervened in different sectors of the economy. The agricultural sector was regulated through prices and other administrative measures to meet the food needs of citizens. The failure of this policy prompted the government to adopt more market-oriented reforms as part of a structural adjustment plan. These reforms took various forms, including trade and financial liberalization, and the privatization of state-owned enterprises. The government also began to assign an important role to agriculture in the Kingdom's trade policy by providing subsidies for international transportation aimed at diversifying market access for key products, thereby lowering trade costs, and by creating an export promotion agency—Morocco Foodex³—dedicated to promoting agricultural and fisheries products in foreign markets. Such reforms improved the competitiveness on international markets of Morocco's agricultural products, the quality of which is today widely acknowledged.

However, paralleling overall trends in the Kingdom's trade performance, Morocco's agricultural exports remain concentrated on a small number of destination countries, most of which are in the European Union, owing in large measure to proximity considerations. In 2019, the EU (including the United Kingdom) absorbed 67.6% of Morocco's total agricultural exports. The overwhelming share of agricultural goods exports goes to five countries: Spain, France, Italy, the Netherlands, and the United Kingdom. Morocco aims to diversify its agricultural exports, both in terms of products and destination markets, and to increase its competitiveness on international markets—an objective that is strongly embedded in the 2020–2030 Green Generation Strategy. To pursue export diversification with development objectives in mind, Morocco must capitalize on its network of preferential trade agreements by more fully exploiting their potential.

Given the central role of agricultural trade, and particularly export growth and diversification, for Morocco's building forward better agenda, we take a close look at the evolution of Morocco's agriculture trade and the extent of its diversification, and provide some recommendations to catalyze the sustainable growth of agricultural exports. For the purposes of this analysis, agricultural

3. Morocco Foodex (Etablissement Autonome de Contrôle et de Coordination des Exportations) is a public entity responsible for export promotion, placed under the supervision of MAPMDREF. Founded in 1986 following the liberalization of the export marketing of agri-food products, Morocco Foodex has four main functions: (i) Technical quality control of export of food products against standards required by the recipient countries; (ii) Export coordination consisting of facilitating specialized sectoral coordination committees, which bring together producers, exporters, and institutions of the export agri-food sector; (iii) Strategic monitoring of export markets for improved decision-making by export actors; and (iv) Export promotion through participation in international fairs and exhibitions, organization of business-to-business missions, and implementation of communication campaigns. As part of its ongoing digital transformation, Morocco Foodex has planned to digitize some key processes associated with the above functions.

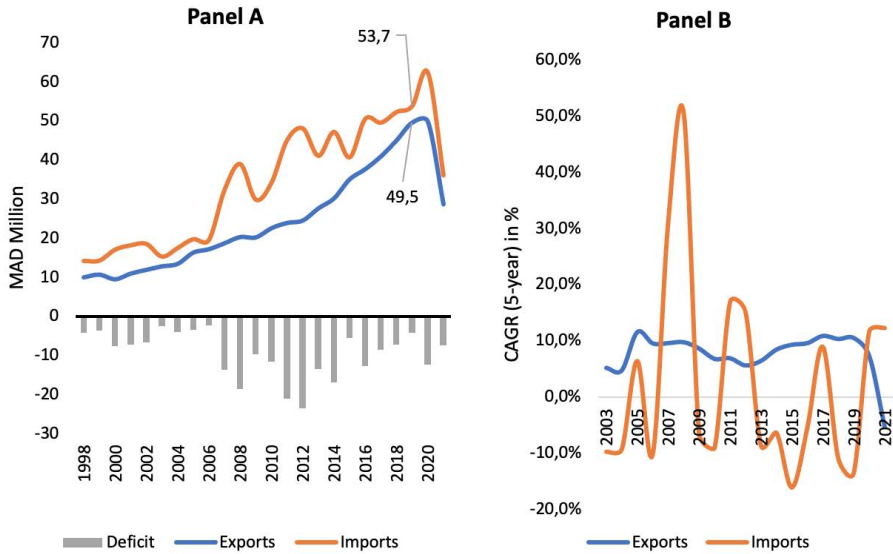
products are defined in accordance with Annex 1 of the WTO Agreement on Agricultural Products⁴, and exclude fish products. The analysis presented here highlights the relatively high degree of market concentration, explores future growth potential by assessing the products' revealed comparative advantage, and assesses the key constraints on future competitiveness. Finally, we set out the sector developments in Morocco in the broader context of a shift to more sustainable production and trade preferences in two of Morocco's key agricultural trading partners, the EU and the United States. We conclude with a set of policy recommendations to help Morocco take advantage of growing market prospects for sustainable and low-carbon exports.

2. Agricultural Trade: Trends, Promising Products, and Markets

Morocco has experienced strong growth of its agricultural exports, although the country remains a net importer. In 2019, Morocco exported about 49.5 billion dirhams of agricultural products, and imported 53.7 billion dirhams (Figure 1, Panel B). Agricultural export growth has outpaced import growth since 2013. Just before the pandemic, agricultural exports grew by an average of 9.4% between 2009 and 2019, while imports grew by 6.1%. However, the growth rate of Morocco's agricultural imports varies greatly from year to year and depends on domestic agricultural production and rainfall (Figure 1, Panel B). Agricultural imports can help reduce the threat to Morocco's food security during difficult harvest seasons. In addition, agricultural and agro-industrial products play a crucial role in Morocco's export basket, and their combined share of total exports increased from 13.0% in 2008 to 18.9% in 2020 (Figure 2).

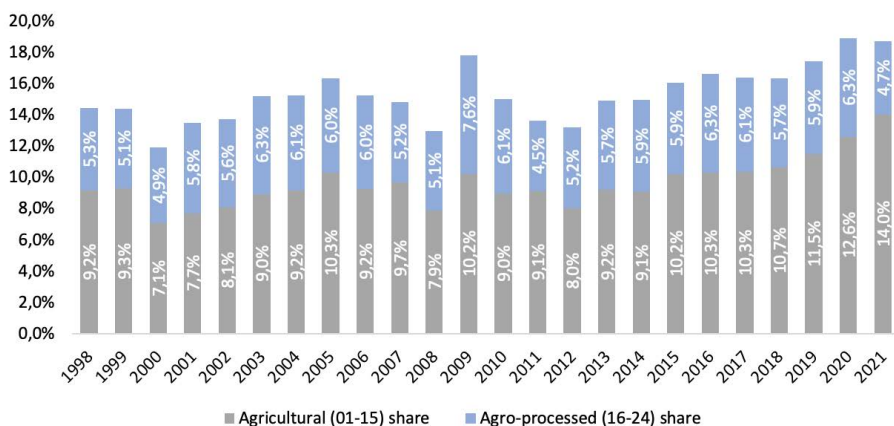
4. The following products are covered HS chapters 1 to 24 excluding fish products, plus HS2905.43 (mannitol), HS 2905.44 (sorbitol), HS 33.01 to 25.05 (albuminoidal substances, modified starches, glues), HS 3809.10 (finishing agents), HS 3823.60 (sorbitol n.e.p), HS 41.01 to 41.03 (hides and skins), and HS 43.01 (raw furskins).

Figure 1. Morocco: Evolution of Agricultural Exports and Imports From 1998 to 2020 (Excluding Fish)



Source: World Bank calculations using data from Office des Changes (2020), excluding HS chapter 03 and 05 (fish).

Figure 2. Morocco: Share of Agricultural and Agro-Processed Exports in Total Exports (Excluding Fish)



Source: World Bank calculations using data from Office des Changes (2020), excluding HS chapter 03 and 05 (fish).

Morocco's agricultural exports are highly concentrated in a handful of products. The top 10 agricultural exports accounted on average for more than 50% of Morocco's total agricultural exports from 2016 to 2018 (see Annex 2). Tomatoes occupy first place with 18.6% of agricultural exports, followed by citrus fruit with 9.9%, and green beans with 6.7%. Green beans are one of the flagship products of Moroccan agriculture with the highest revealed comparative advantage (RCA). Then come canned olives, contributing about 4% of total agricultural exports. Other products include food preparations based on fruit and vegetables, watermelons, and blueberries.

As expected, Morocco has a strong comparative advantage in fruit and vegetable exports, which have benefited from high global demand and have translated into increasing exports. Based on estimates of the RCA index, Morocco has an RCA in more than 45 agricultural and agro-industrial products (Annex 3). The results further suggest that Morocco has a comparative advantage not only in fresh products but also agro-processed products, including peeled tomatoes and canned vegetables⁵. With an increase in productivity and lower trade costs, Morocco could further exploit its export potential in goods with comparative advantage and higher domestic value added. Several products have experienced high growth rates over the past decade, including avocados, green onions, and shallots, and a new export product, peppermint (Box 1).

5. A comparative advantage is 'revealed' if $RCA > 1$. If RCA is less than unity, the country is said to have a comparative disadvantage in the commodity or industry. For example, in 2018, green beans represented 0.0047% of world trade with exports of 901,534. Of this total, Morocco exported 256,637. As Morocco's total exports for that year were 24,510,000, green beans accounted for 1.047% of Morocco's total exports. Because $1.047/0.0047 = 222$: Morocco exports 222 times its 'fair share' of all green beans exported. Thus Morocco has a high revealed comparative advantage in green beans.

Box 1. Morocco's Strong Comparative Advantage and the Rising Exports Values of Fruit and Vegetables

In the case of peppermint, Morocco has quickly gained a significant market share. Morocco's peppermint exports amounted to 1.2 million in 2018, making Morocco the world's second largest exporter of peppermint after Myanmar. Moroccan peppermint is imported by several countries including European countries such as France, Germany, Italy, and Spain—where the Moroccan community living abroad represents an important source of the demand for Moroccan products—and also India and Nigeria.

Avocado is also a promising product. Although a novice in a competitive sector that brings together giant producers in Chile, Mexico, and Peru, Morocco has managed to enter the world market thanks to high product quality and Morocco's proximity to the European market. Avocados shows an export growth of 30% in the past decade, increasing from a value of 3.5 million in 2009 to more than 55 million in 2018. The main importers of Moroccan avocados are Spain, with 69% of total avocado exports, France and Germany with 14% each, and the Netherlands with less than 2%. Given Morocco's geographical position, the European market offers significant potential for Moroccan avocado exports. In addition, Morocco could seek to expand the market reach of its avocados by taking advantage of the preferential access granted by the U.S.-Morocco Free Trade Agreement.

As for green onions and shallots, Morocco's exports of these products grew by almost 20% between 2008 and 2018, from a value of 1.3 million to 11 million. Apart from the Netherlands, the main importers of green onions and shallots from Morocco are the African countries of Côte d'Ivoire, Mali, Mauritania, and Senegal. Limited quantities of green onions are exported to Canada, Russia, and the United Kingdom.

In general, Morocco's trading partners are quite diverse, but the bulk of agricultural exports go to the EU, mainly France and Spain, as expected. From 2008 to 2019, Morocco's agricultural exports values were heavily concentrated in the EU market, which absorbed 72% of aggregate exports during the period. France and Spain accounted for 44.1% of Morocco's total agricultural exports by value. This high concentration of export markets increases Morocco's exposure to economic conditions in its main trading partners. Greater market diversification will benefit the Moroccan agricultural sector through market differentiation for high and low value-added products.

Another way to assess Morocco's degree of diversification in terms of products and markets is to evaluate the country's position relative to peer countries. A first useful diversification metric relates to the number of products exported and the number of markets reached by agricultural products in a given period. A second metric is the Hirschman-Herfindahl Index⁶ (HHI), which allows a comparison of export concentration levels in two or more countries that may be equal in terms of the number of products (or markets), but may vary in terms of concentration. Several structural and aspirational peers were selected to compare Morocco based on geographic location, export basket composition, performance in agricultural growth, and similar trade liberalization experiences: Colombia, Costa Rica, Malaysia, Mexico, and South Africa.

The annual number of agricultural products exported and the destination markets reached by agricultural products has shown a tendency to deteriorate since 2015. The number of products exported and the number of markets reached by agricultural products in a given period is a useful indicator of diversification (Figure 4, Panels A and B). In terms of products, Malaysia, Mexico, and South Africa export a higher number of different agricultural goods than Morocco, while Costa Rica and Colombia export a smaller variety of agricultural goods. In terms of the number of markets, Morocco has one of the lowest market reaches.

However, Morocco's agricultural exports are more concentrated across markets than across products compared to the Kingdom's peers. The Hirschman-Herfindahl Index enables comparison of export concentration of two or more countries that may be equal in terms of the number of products (or markets), but may vary in terms of concentration. For Morocco, product diversification is showing signs of improvement, while market diversification is below average (Figure 4, Panel C). However, when comparing Morocco to its comparator countries, its agricultural exports are slightly more concentrated than those of Malaysia, Mexico, and South Africa but much more diversified than those of Costa Rica and Colombia. In terms of market destinations, Morocco is less diversified than peers, except for Mexico which has high concentration of exports to the U.S. (Figure 3, Panel D).

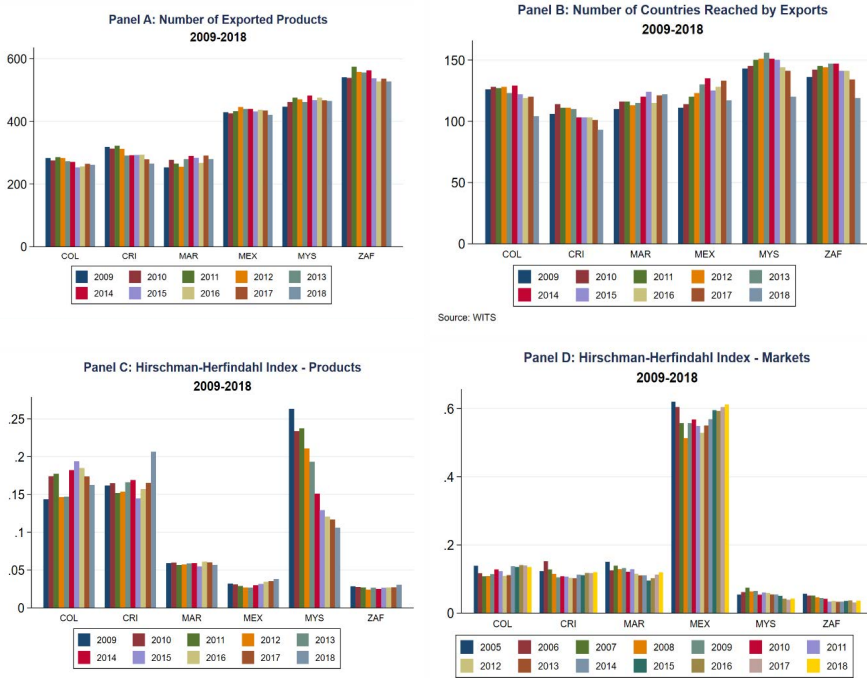
The Moroccan government is exposed to the high geographic concentration of agri-food exports and has been actively promoting trade diversification, notably through international transportation subsidies for exported agriculture products. Introduced in 2002 and aligned to WTO disciplines, the export transportation subsidy was originally intended to promote the diversification beyond the EU of export markets for tomatoes and citrus fruit. Morocco has

6. The HHI is computed as the sum of squared shares of each product (market) in total export. A country with a perfectly diversified export portfolio will have an index close to zero, whereas a country exporting only one export (market) will have a value of 1 (least diversified).

notified the WTO of its export subsidies for the international transportation of fruit, vegetables, cut flowers and ornamental plants, and olive oil. These aim at reducing the export freight cost of these products. The latest available notification covers the years 2014 to 2017. According to Moroccan notifications, the government provided the equivalent of 3 million in export support for international freight of olive oil, and 12 million for vegetables, fruits, flowers and ornamental plants in 2011. The products and destinations eligible for these subsidies are announced by decree in an ad-hoc manner⁷. These subsidies differ depending on the product and destination. For example, the state subsidizes the transportation costs of exports of citrus fruits to Russia up to a level of 50 dirhams per metric ton, and when there is an overrun compared to a reference year, the amount can triple to reach 150 dirhams per ton. When citrus fruits are exported to China, Ukraine, or the Arab Gulf States, the transportation subsidy can reach up to 1,000 dirhams per ton. For the rest of the countries outside the EU, the transportation subsidy for exported citrus fruits is set at 500 dirhams per ton (FDA, 2016). In 2011, this was extended to a broader range of products, including strawberries, olive oil, and hatching eggs. While the overall level of subsidies for export transport costs has remained low, they are expected to increase significantly in the future as diversification of agricultural and agro-industrial exports has become a high priority for the government.

7. More information on the notification can be found on the WTO website ([Link](#)).

Figure 3. Morocco: Benchmarking the Number, Destination and Concentration of Agricultural Exports, 2009–18



Note: The figures use the following abbreviations: COL for Colombia, CRI for Costa Rica, MAR for Morocco, MEX for Mexico, MYS for Malaysia and ZAF for South Africa.

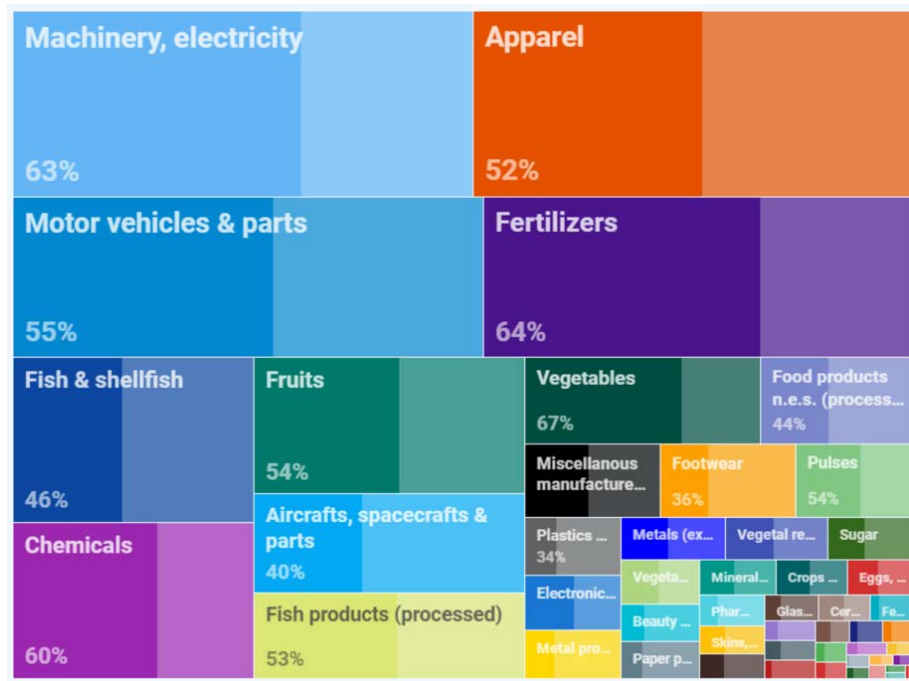
Source: World Bank estimated based on World Integrated Trade Solution database.

An important policy question is the extent to which Morocco can improve its agri-food export diversification in terms of products and markets. Export diversification not only helps stabilize export earnings by reducing Morocco's vulnerability to external conditions. It can also enhance economic growth and stimulate the structural transformation of the economy by shifting capital and labor to more productive activities. The diversification of Morocco's agricultural and food exports has already been successful, but there is still untapped potential.

Morocco's export potential for some agricultural products is not yet exhausted, but land and water resources may also be natural barriers to export growth. Several agricultural and food products have not yet fully realized their export potential (Figure 4). The export potential is computed from the exporter's supply, the target market's demand, market-access conditions, and bilateral links

between the two countries. However, the model does not take into account the obstacles of land and water access. Morocco faces water scarcity, despite recent improvements thanks to the GMP, placing limitations on its export potential. However, removing trade barriers that can lower trade costs, and limiting domestic policies that can distort the market, will help improve the productivity of the agricultural sector.

Figure 4. Morocco: Export Potential Across Sectors

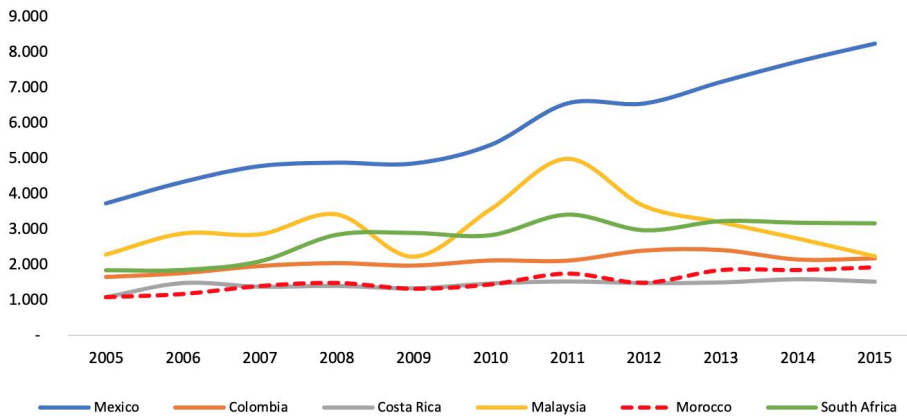


Source: ITC map.

Note: What is measured? The Export Potential Indicator identifies the potential export value for any exporter in a given product and target market, based on an economic model that combines the exporter's supply, the target market's demand, market-access conditions, and bilateral linkages between the two countries. For existing export products, supply is measured through historical information on export performance. Potential export values can be compared with actual export values to find exporters, products, and markets with room for growth. The Product Diversification Indicator estimates supply using the Product Space methodology, which establishes links between products based on how frequently they coincide in countries' export baskets. It assumes that products that are often exported together rely on similar capabilities for their production. Supply is combined with the target market's demand and market-access conditions, to ensure that feasible products for the exporter also have favorable chances of export success.

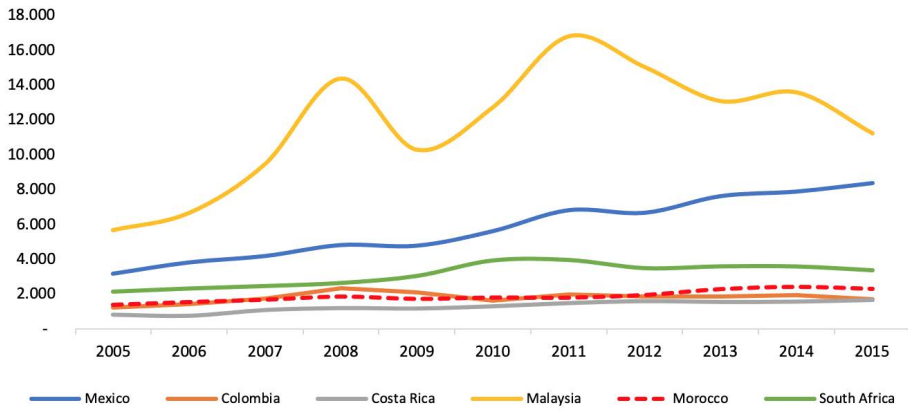
To reach its full potential, Morocco needs to focus on higher-value exports, either through new products or by upgrading the quality of existing products, as its agricultural capacity to produce more traditional low-value goods may be limited. An important challenge posed by diversification in the agricultural sector is whether it should take place at the intensive margin, i.e. by increasing the export value of existing products, either by exporting larger quantities or by adding value domestically; or at the extensive margin, by introducing new products. Figures 5 and 6 show that Morocco's domestic value added by agri-food industries in millions of U.S. dollars to partner countries generated somewhere in the domestic economy, is below that of comparator countries, with the exceptions of Costa Rica and Colombia, suggesting that Morocco has untapped potential to increase domestic value added. Consequently, focusing on adding more domestic value, or transforming agricultural products and focusing on new high-value agricultural products, is the right way to expand and exploit the untapped potential of Morocco's agricultural exports. Expanding production in terms of export volumes might be limited in Morocco because of climatic conditions.

Figure 5. Morocco's Domestic Value Added for Agricultural, Forestry & Fishery Exports, USD Mio



Source : World Bank calculations using data from OECD TiVA database 2020.

Figure 6. Morocco's Domestic Value Added for Food Products, Beverages & Tobacco Exports, USD Mio



Source : World Bank calculations using data from OECD TiVA database 2020.

This suggests that product innovation, access to niche markets, and the development of high value-added agri-food products are key to Morocco's diversification of agricultural exports in the long term. In fact, diversification is likely to take place either through the expansion of value chains, through penetration of new markets to which there is preferential access, or through the emergence of new products of higher value added, such as those that support the growing global demand for foods associated with changing lifestyles and consumption habits, such as healthy and green products. Some of the specialty products, such as almonds and other fruit-tree crops, and health products and spices, including medicinal and aromatic plants, can potentially deliver multiple benefits from the perspective of export earnings, growth, employment, and environmental protection (Box 2). Constraints including water availability, technology, and R&D may hinder productivity growth, processing capabilities, and the export potential of specialty and fruit-tree crops.

Box 2. Rising Global Demand for Healthy and Sustainable High-Value Products May Present Opportunities for Morocco—The Case of Declining Exports of Almonds Despite Significant Potential for Future Growth

Almond trees are the second most extensively cultivated fruit trees in Morocco after olives, with a planted area of 165,800 hectares (MoA, 2021). Morocco is among the world's top 10 major producers of almonds, and land conversion from cereal crops to almond-tree cultivation was supported through the Green Morocco Plan. But Morocco's exports of almonds have declined from a peak in 2005, to about one-fifth of that level.

The share of almond exports to the EU has increased from 82% to 95% of total Moroccan almond exports over the past two decades, especially to Denmark, Germany, Italy, and the Netherlands. These countries are among the world's top 10 importers of shelled almonds. Morocco is among the top 10 suppliers to Germany and the Netherlands. However, imports from Syria and Australia exceed Morocco's almond exports to these European countries. Despite the proximity of these European markets to Morocco, the cost, insurance, and freight (CIF) prices for Moroccan almonds remains high, compared to those imported by the European countries from Syria (in the case of Germany) or Australia (in the case of the Netherlands). In Germany, the CIF price of Moroccan almonds is 7 per kilogram, while it is 6 for Syrian almonds; and in the Netherlands the price of Moroccan almonds is 6 compared to 5 for almonds from Australia.

Global demand for almonds has soared as the health benefits of almonds are now widely acknowledged, and as their use in manufactured products has grown. Meals based on dried fruits and almonds are becoming increasingly attractive to consumers, who are becoming more demanding about the quality of the product in terms of nutritional value and production process. This rising global demand presents an opportunity for Morocco, especially as domestic farmers already have expertise in the field.

Morocco needs to examine the drivers of competitiveness and the reasons behind its higher CIF price of almonds. If the high price is not purely a result of higher transportation costs, but is also driven by inefficiencies in production and processing, which is likely the case, then Morocco needs to invest in better organizing its domestic producers so they become more competitive in international markets. The almond sector in Morocco is still dominated by smallholders with less than 1 ha, who account for about 80% of almond

farms. The sector is not well organized, and there is insufficient processing capacity. Better organization of farmers within cooperatives will help them increase their production and improve the quality of the products, and will also increase smallholder incomes. Finally, almond production will also benefit the environment, as almond trees are suitable for marginal lands and contribute to soil nutrient fixation in fragile ecosystems.

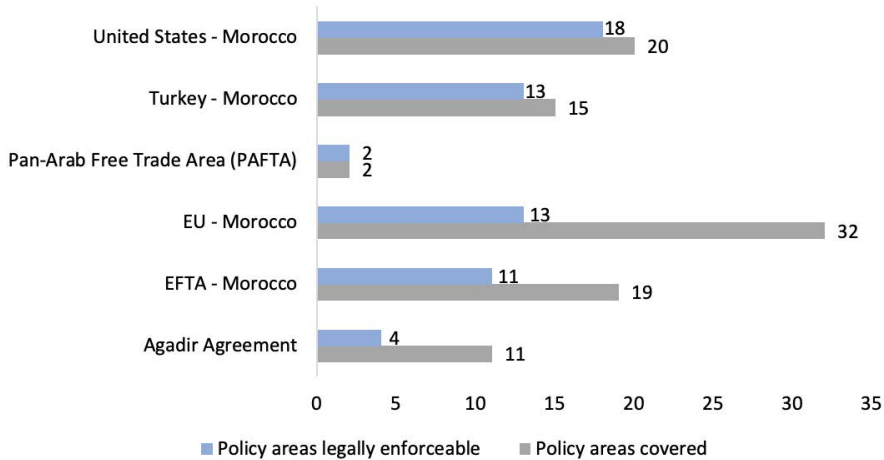
3. The Impact of Preferential Trade Agreements on Morocco's Agri-food Exports

Morocco has currently-in-force PTAs with 53 partners (the Pan-Arab Free Trade Area signed in 1998, the Association Agreement with the European Union in 2000, the European Free Trade Area (EFTA) in 1999, PTAs with the United Arab Emirates in 2003, Turkey in 2006, the United States in 2006, and the Agadir Agreement in 2007). These cover 81.6% of Morocco's total agricultural exports. While most PTAs entered into by Morocco provide exporters with preferential market access at relatively low applied tariffs, the agreement with Turkey offers no concessions for agricultural products, while the one with EFTA offers low preferential margins. It should be noted that Morocco is also part of the Global System of Trade Preferences (GSTP) among developing countries, offering duty-free access to least developed countries in Africa. It also enjoys access to Generalized Systems of Preferences agreements with seven countries. Morocco signed another agreement in 2019 with the United Kingdom, which entered into force on 1 January 2021. On the same day, the African Continental Free Trade Area (AfCFTA) was officially launched. Signed in 2019, it entered into force in January 2021.

Morocco's efforts to open up to international markets have been marked by the signing of PTAs with a number of partner countries, including important markets such as the United States and European Union. It is therefore important to place the growth of agricultural exports in the context of the Kingdom's network of existing free trade agreements. This section examines the impact on agricultural exports values resulting from the entry into force of three PTAs: the U.S.-Morocco and EU-Morocco FTAs, since they are the most comprehensive trade agreements that Morocco has signed (Figure 7), and the UAE-Morocco agreement. This is done by assessing export values before and after the entry into force of these agreements, and the trade complementarity index, in order to evaluate pathways to improve Morocco's agricultural export performance with these partners. While agricultural exports to countries with which Morocco

has signed PTAs have grown significantly, there remains significant untapped potential for further export expansion.

Figure 7. Morocco: Policy Coverage of PTAs Notified to the WTO



Source: World Bank Deep Trade Agreements database.

Morocco's PTAs are a mix of deep and shallow agreements, yet deep trade agreements can improve the trade environment and support export growth by facilitating trade. Provisions that fall under the current mandate of the WTO and that are already subject to some form of commitment in WTO agreements cover agriculture, and are included in all of Morocco's trade agreements. However, the EU-Morocco FTA includes additional provisions that affect agriculture, such as technical assistance, but the U.S.-Morocco agreement does not (Table 1). On the other hand, the U.S.-Morocco agreement includes additional and legally enforceable measures related to trade facilitation and tariffs, SPS and TBT, which fall under the current mandate of the WTO, while SPS and TBT are not covered in the EU-Morocco FTA. No data is available for the UAE-Morocco agreement, but since the UAE is part of Pan Arab Free Trade Area (PAFTA), it is likely that the agreement is rather superficial. Moroccan agricultural exports could benefit from a deepening of the FTA, covering not only technical assistance, but also SPS and TBT, as well as customs law and regulations

Table 1. Depth of Morocco's FTAs, Selected Policies

	Agadir	EFTA-Morocco	EU-Morocco	PAFTA	Turkey	USA
Agriculture	X	✓	✓	X	✓	X
FTA Agriculture	✓✓	✓✓	✓✓	✓✓	✓✓	✓✓
Investment	X	✓	✓	X	X	✓✓
SPS	✓	✓	X	X	✓✓	✓
Subsidies	X	✓✓	✓✓	X	✓✓	✓✓
TBT	X	✓	✓	X	✓✓	✓✓
Trade Facilitation & Customs	✓✓	✓✓	✓✓	X	✓✓	✓✓

Source: World Bank Deep Trade Agreements database.

Note: X means that the policy areas is not covered. ✓ means that the policy area is covered. ✓✓ means that the policy are is legally enforceable.

European Union-Morocco Association Agreement (EUMAA)

In 1996, Morocco signed an Association Agreement with the European Union that entered into force in 2000. This agreement provides for the gradual implementation over a 12-year period of a free trade area for industrial products, and for the strengthening of trade in agricultural and fisheries products by reducing tariffs and setting up tariff quotas for products identified as sensitive. Given the specificity of agricultural products, the agricultural protocols were revised in 2002–03, leading to new commitments in 2004. The revised protocols have been adapted twice, first in 2004 following European Union enlargement from 15 to 25 member countries, and again in 2007 following the accession of Bulgaria and Romania to the European Union (MAPMDREF, 2020).

In 2012, new protocols repealing the previous ones were implemented. These offered immediate liberalization of 45% of European agricultural exports, rising to 70% over 10 years. Access to the European market was also immediately liberalized for 55% of Moroccan exports. Most Moroccan agricultural products have since entered the market freely, with the exception of

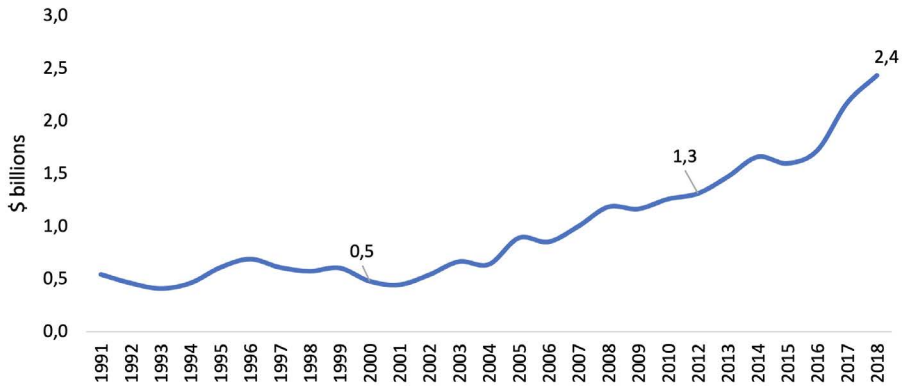
some sensitive products. There are two lists of sensitive products⁸. First are those subject to export quotas: garlic, tomatoes, zucchini, cucumbers, clementines, and strawberries. Second are products subject to minimum entry prices: cucumbers, peaches, apricots, tomatoes, zucchini, artichokes, oranges, and table grapes. The new protocols also contain provisions on guarantees, sanitary and phytosanitary measures, and standards and technical regulations.

The EUMAA has contributed to a fivefold increase in Morocco's agricultural exports to the European Union. There have been three phases (1) pre-EUMAA from 1991-2000; (2) first phase of EUMAA from 2001-2012; and (3) second phase of the EUMAA from 2012 to today. Moroccan agricultural exports have increased in each phase: from 0.5 billion in 2000 to 1.3 billion in 2012, and to 2.4 billion in 2018 (Figure 8). This reflects not only the increase in Morocco's supply of various agricultural products, but also to market expansion efforts in the European Union, with shifts in export shares from France to Spain and, to a smaller extent, to other Eu countries⁹.

8. For more information on the fruit and vegetable products subject to the European Union's entry price system and to tariff rate quotas, see Van Berkum (2013).

9. During the pre-EUMAA phase, Morocco's agricultural exports grew by an average of 2% per year. France, Germany, and Spain were Morocco's main trading partners, with shares of 56%, 11%, and 6% of Morocco's total exports respectively. In terms of products, Morocco exported mainly oranges with nearly 18%, tomatoes with 13%, and tangerines, clementines, satsumas with 12% of total agricultural exports. With regard to the first EUMAA phase, Morocco's agricultural exports increased by an average of 11% per year, rising from a value of 4.4 billion to over 12.5 billion. Such export expansion was accompanied by market diversification. While France absorbed a large share of Morocco's agricultural exports, other markets expanded, including Italy and the United Kingdom, which each imported 6% of Morocco's exports, and the Netherlands, which imported 8% of Morocco's agricultural exports. At the same time, Spain also increased its share of Morocco's imports from 6% to 14% of Morocco's total exports. During the second phase, exports of tomatoes also increased substantially by an average of 13% per year, with tomatoes taking first place this time, accounting for 18% of Moroccan exports, followed by organic raw materials and green beans, each accounting for 9% of Moroccan agricultural exports. Another product, virgin olive oil, also gained importance in EUMAA, increasing at an average annual rate of 17%. Furthermore, new products were introduced, including blueberries. In the current phase, after six years of implementation of the EUMAA, Morocco's agricultural exports have increased annually by 9.5%, from 13 billion to about 24 billion. The share of agricultural products exported to France in total agricultural exports has decreased in favor of other markets, including Spain, which has seen its share of Morocco's imported agricultural products increase to an average of 23% over the 2012–18 period. The share of the Netherlands has also increased to 10% of Morocco's agricultural exports. The remainder is mainly shared between Belgium, Germany, Sweden, and the United Kingdom. In terms of products, the share of tomatoes has increased to 25% of Moroccan exports, followed by green beans (9%). Other products have grown in importance, including fresh hot or sweet peppers (5%), watermelon (2%), melon (3%), and avocado (1%).

Figure 8. Evolution of Morocco's Agricultural Exports to the European Union (billion)



Source: World Bank calculations using data from FAO 2020.

Although Morocco's agricultural exports have increased under the EUMAA, Morocco has yet to realize the untapped potential of the agreement. Given the restrictions imposed by the European Union in the form of tariff-rate quotas (TRQs), Morocco must export its products according to a specific schedule, to protect European producers as mentioned above. However, Morocco is unable to meet the TRQs for several products, including garlic, zucchinis, and cucumbers, as suggested by Berahab and Dadush (2019). In the case of cucumbers, for example, although exported volumes increased from 2,374 tons to over 6,400 tons in 2012-19 (an average annual growth rate of 12%), export quantities of fresh or refrigerated cucumbers remain far below the guaranteed quota, which is 15,000 tons between November 1 and May 31, and unlimited access during the rest of the year (ADII, 2020). Only 43% of the TRQ imposed on cucumbers was achieved. Deeper analysis would be needed to fully understand the reasons behind the unfilled quota for some products, such as cucumbers, and the exceeding of quotas for tomatoes and strawberries. Some of the constraints may range from unattractive pricing to imperfect information, a lack of farmer organization or limited access to export logistics channels.

Analysis of trade complementarities suggests that there might be remaining untapped potential to diversify Morocco's agri-food exports to the European Union. Morocco benefits from a high level of trade complementarity with the

EU, which imports approximately 25% of Morocco's agricultural product mix¹⁰. However, agricultural imports from Morocco represented only 0.5% of the European Union's total agricultural imports in 2018¹¹. This relatively low level of performance can be explained by several factors. The first is concentration in certain products and destination markets. Morocco mainly exports to two European countries, France and Spain, although it is not clear from the data whether these countries may be the ports of entry of exports destined for other EU countries via distributors or wholesale markets. The second obstacle for Morocco to expand its European market share in terms of products. Market share may relate to strong competition from intra-European trade, particularly imports from Eastern Mediterranean and Eastern European countries. The latter enjoy not only good market access conditions, but also play an important role in the greater geopolitical stability of the EU and have relatively low labor costs. Further research on the complementarity between agricultural exports from these regions destined for the European Union should be conducted to contextualize the competitiveness of Moroccan exports.

The recent adoption of the European Union's Green Deal, and particularly the Farm to Fork Strategy, which lays out the European Union's long-term vision for agriculture, may have implications for Morocco's agri-food trade with the EU. As part of the Green Deal and Farm to Fork Strategy, the EU intends to promote a significant shift towards a low-carbon, sustainable, and healthy food system. This will have implications for the EU's agri-food trade partners as this new policy environment may lead to the introduction of a carbon border adjustment mechanism in some sectors (not foreseen in agriculture in the short term), and a general shift towards more sustainable and healthy production of agri-food products (Box 3). If this were to happen, the competitiveness of Morocco's agri-food exports in the European Union markets may decline, unless Morocco is able to convert this policy shift into a comparative advantage for its agri-food producers by developing the sector's capacity to meet the more rigorous requirements¹².

10. Trade Complementarity Indexes (TCI) were estimated for this Policy Note between Morocco and the European Union, Morocco and the United States, and Morocco and the United Arab Emirates. TCI was calculated using the following formula:

$$C^{i,j} = 100 [1 - \sum_{k=1}^m |x_k^i - m_k^j|/2]$$

Where:

i is exporting country and j importing country

K is agricultural products

x_k^i is the share of product k in total export of the country i

m_k^j is the share of product k in total imports of country j

11. Authors' estimates using FAOSTAT (2020).

12. Moreover, the European Union accounts for 20% of Morocco's total phosphate exports. The new Green Deal is likely to create imbalances in phosphate exports over the long term, and may have an effect on Morocco's chemicals exports.

Morocco's commitment to promoting climate-smart and digitally-enhanced agriculture through the Green Generation Strategy 2020-2030 (GGS) offers an opportunity for the Kingdom to position its agri-food sector in a context where sustainable, low-carbon, organic, and/or certified agri-food products may gain it a competitive edge on European markets. The investment and institutional strengthening measures already envisioned as part of the GGS to improve Morocco's agri-food safety, sanitary and phytosanitary and traceability systems, investments in the promotion of precision technologies and digital agriculture, support for eco-efficient agriculture, and the planned creation of the National Climate Smart and Digital Agriculture Center (a consortium of several government and non-government agencies and universities), all present likely win-win opportunities. Such support measures can improve not only the climate resilience of Moroccan agriculture but, in the longer term, also potentially improve the competitive stance of Moroccan products in low-carbon markets.

Morocco has strong potential to seize growing green export opportunities. First, it benefits from close proximity to the EU and improved market access thanks to the latest developments in the agricultural terms of the EUMAA. Second, the country's smaller farms—the average size of a family farm in Morocco is only about 2 hectares—in combination with competitive unit labor costs, lend themselves well to more labor-intensive organic production systems. Lastly, the Government of Morocco has made significant progress in recent years in establishing a supportive legal and institutional framework for building organic agri-food markets domestically¹³. Such growth opportunities are likely to be even greater should traceability be introduced, in order to control and monitor the production process, reducing compliance burdens in foreign markets and improving productivity.

13. On February 21, 2013, Morocco established its legal framework for organic products and published Law 39-12 in the Official Bulletin 6128. Law 39-12 regulates the production, processing, marketing, and labeling of organic products. The implementing Decrees and Arrêtés have been developed and are awaiting publication in the Official Bulletin. Currently, organic products in Morocco are certified in line with international organic standards and certification requirements. The certification bodies currently operating in Morocco that have been accredited in line with international accreditation requirements include Ecocert, CCPB, Lacon, Bioagricert, Bureau Veritas, and Ceres Certification.

Box 3. The European Green Deal and EU Farm to Fork Strategy: Intended Shift to a Low-carbon and Sustainable Food System and Agri-food Trade

The European Green Deal, notably the Farm to Fork Strategy (F2FS), proposed in September 2020, is meant to be the future of Europe's food supply chain and is intended to make food systems sustainable, healthy, and environmentally friendly. Its objectives translate into quantitative targets related to climate, environment, and health issues for agriculture, with substantial reductions in the use of pesticides, fertilizers, and antibiotics, and large increases in agricultural land under organic farming, high-diversity landscape features, and protected land areas. By adopting a whole food-chain approach, objectives go far beyond the farm gate, generalizing the application of circular bio-economy principles, reducing food waste and losses, and encouraging a shift towards healthy and environmentally friendly food diets.

On the trade front, the Green Deal includes the possibility of a carbon border adjustment mechanism for selected sectors (not agriculture, in the short term). It also proposes the development of international cooperation and actions to promote more sustainable production in partner countries. The F2FS intends to promote stronger Green Deal Diplomacy between EU countries and partner countries, to induce partners to act, and to ensure comparability of actions and policies with those of EU Member States as part of the Green Deal.

While the treatment of indirect greenhouse gas (GHG) emissions associated with agricultural and food trade remains a controversial issue, policy deliberations and assessments are ongoing. Consideration is notably being given to the issue of 'carbon leakage' through imports of products with high GHG-emission lifecycle profiles. Introduction of the carbon border adjustment mechanism is planned in the framework of the Green Deal. The F2FS anticipates that digital and precision farming technologies will be important pathways to help reduce GHG emissions from agriculture, owing to reduced input use, particularly of nitrogen fertilizers.

A key condition for the Green Deal not to have perverse displacement effects away from production in the EU, and to be accepted by farmers, is to design border mechanisms that will set equivalent climatic, environmental, and health requirements on EU imports from non-EU countries. In the absence of such an instrument, the risk is high that imports from less

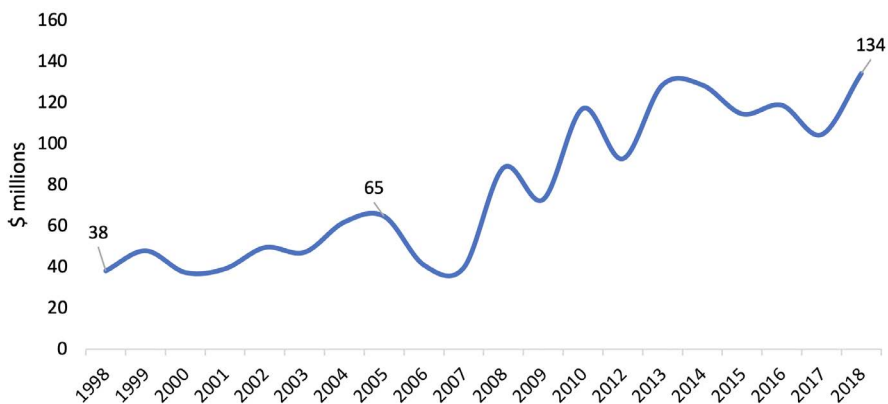
environmentally committed countries could lead to lower prices and thus penalize European farmers. European farmers' organizations stress the need to ensure a level playing field for all imports, whether they enter under a preferential tariff regime or on an MFN treatment basis. With the exception of the proposed border adjustment tax for some sectors, not much has been proposed by the European Commission in this area.

Adapted from Guyomard, H., Bureau J.-C. et al. (2020).

Morocco–United States free trade agreement

Signed in 2004, the Morocco–United States free trade agreement entered into force on January 1, 2006, and applies to trade in agricultural and industrial goods, and services. The main provisions of the agricultural component of the agreement revolve around the administration and management of quotas, special safeguard measures, sanitary and phytosanitary measures, and rules of origin (USDA, 2006). The agreement has had an overall positive impact on Morocco's agricultural exports to the United States, with a spike in 2006 immediately after the agreement's entry into force. However, export values remain relatively low at 134 million in 2019, compared to 65 million in 2004 (Figure 9), suggesting that scope exists to more fully realize the agreement's potential, including through expanded export promotion efforts.

Figure 9. Evolution of Morocco's Agricultural Exports to the United States (million)



Source: World Bank calculations using data from FAO (2020) data.

In terms of national treatment and market access for goods, each party has agreed to grant non-discriminatory treatment to the 'originating products' of the other party. Both partners must also progressively eliminate tariffs and dismantle a wide range of non-tariff barriers. For Morocco, the commitments made by the United States range from zero-duty access upon the agreement's entry into force, notably for beans, grapes, olive oils, canned olives, tomatoes, zucchinis, clementines, strawberries, and floriculture products, and to the gradual dismantling of tariffs on other products over 18 years (i.e. by 2024). The agreement also granted Morocco preferential tariff quotas (TRQs) for cotton, tobacco, beef and veal, certain dairy products, tomato preparations, peanuts and their derivatives, sugar and products containing sugar, and dried or powdered onions and garlic^{14, 15}.

Moroccan agricultural exports to the United States have increased and diversified in the FTA's wake, although there is still significant potential to be exploited. Analysis of the agricultural trade complementarity index between Morocco and the United States suggests that Morocco's exports match with 30% of total US imports. Although there are more than 200 agricultural products that could be exported to the United States, Morocco currently only exports 29 products. Morocco has a revealed comparative advantage in a range of products that could be exported—green beans, melons, avocados, watermelons, strawberries, and fresh tomatoes—which currently account for 12% of U.S. agricultural imports.

Despite the high level of complementarity in the structure of Moroccan exports and U.S. imports, other factors impede the expansion of Moroccan exports to the U.S. and their competitiveness in the market. The first constraint

14. Under these tariff rate quotas, products from Morocco benefit from zero duty for specific volumes, including 10,000 kilograms for dried onions, 5,000 kilograms for dried garlic, 200 tons for tomato sauces, and 300 tons for canned tomato products and pureed tomatoes. In addition, the quantities granted increase by 4% per year; volumes exceeding these specific quantities are subject to higher customs duties (USTR, 2003). At the same time, sugar and certain sugar-containing products are subject to the condition of net exporter, and some products, such as red and white meat, hard and soft wheat and their derivatives, apples and almonds, are subject to tariff quotas allocated on a 'first come, first served' basis, except for wheat, for which imports are subject to a tender procedure.

15. The volumes exported from Morocco to the United States were 46 million during the 1998–2005 period prior to the FTA. Morocco exported about 24 products of which two accounted for more than half of total exports: canned olives with almost 35% and raw organic materials with about 18% of exports. Over the same period, Morocco's export volumes increased significantly with a growth rate of 4.4%. After signing the Morocco–US FTA, Morocco's agricultural exports grew rapidly. They rose from a value of 41 million in 2006 to more than 134 million in 2018, a growth rate of 7.7%. While the quantities exported have increased significantly, the exported products have remained almost the same. In fact, in addition to canned olives and raw organic materials, other products have gained importance in the basket of exports of the U.S., including citrus fruits (tangerines, clementines, and mandarins) and virgin olive oil. Exports of these two products grew by 12.9% (citrus fruits) and 13.6% (virgin olive oil), and accounted for 28% of Morocco's total agricultural exports. Although it accounts for only 6% of Morocco's agricultural exports, tea has also recorded significant growth at a double-digit rate of about 10%.

relates to strong competition from Latin American countries, in particular Mexico, which has lower logistics and transportation costs thanks to its better connectivity and proximity to the U.S. market. Mexican agricultural exports are relatively concentrated precisely because they are mainly destined for the U.S. market or Canada. Moreover, Latin American countries produce and export products similar to Morocco's agricultural export basket. This weighs on the competitiveness of Morocco's agricultural products, which face higher trade costs because of their greater distance from the market, and the challenge of complying with stringent North American food-safety standards

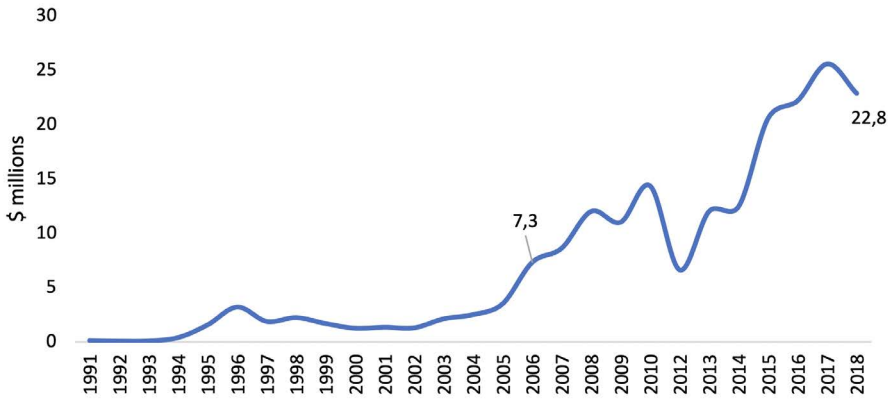
United Arab Emirates–Morocco free trade agreement (UAE FTA)

The free trade agreement between Morocco and UAE was signed in 2001 and entered into force in July 2003. The agreement covers all industrial, agricultural, and agro-industrial products originating in and coming from both countries. The two partners agreed to the full liberalization of agricultural, agro-industrial, and fisheries trade, except for products excluded from preferential benefits for reasons of health, morality, safety, or security; products manufactured in free zones; and agricultural products covered by the preference clause granted by the United States.

After the signing of the agreement, Morocco's agricultural exports increased. The value of Morocco's agricultural exports to the UAE rose from 7.2 million in 2006 to 22 million in 2018, an average annual growth rate of 10.4% (Figure 10). Exports also became more diversified. New products were introduced, including strawberries, blueberries, dried beans, and watermelons, in addition to traditional exports of oranges, coffee extracts, and canned olives. These products accounted for 47% of total agricultural goods imported by the UAE from Morocco. Citrus fruits such as mandarins have gained importance in UAE imports from Morocco. Exports of these products increased at an average annual growth rate of 27%, reaching 3.3 million at the end of the period.

Even though agricultural exports from Morocco to the UAE remain relatively low, there is significant growth potential. This can be inferred from recent trends and from the fact that the trade complementarity index between the two partners is high; exports from Morocco correspond to 19% of UAE imports. However, Moroccan exports face fierce competition from large agricultural producers from Asia, Turkey, and European producers that often enjoy better market connectivity and lower transportation costs.

Figure 10. Evolution of Morocco's Agricultural Exports to the UAE (million)



Source: World Bank calculations using data from FAO (2020) data.

4. Main drivers of the competitiveness of Morocco's agri-food exports

Various metrics can be used to assess a country's competitiveness, of which price comparisons are typically the most relevant. Since price series for all goods for all countries are not easily available, the illustrative analysis of the drivers of competitiveness for Morocco presented here focuses on the tomato and green-bean value chains. This assessment involves the calculation of unit values, estimated as the value of items traded divided by the quantity exchanged. A more detailed analysis comparing free on board (FoB), and cost, insurance, and freight (CIF) prices by markets is also provided¹⁶. The analysis of the FoB and CIF difference can isolate the effect of transport costs, as the difference between FoB and CIF prices is mainly explained by logistics performance.

Transport costs are a determining variable in the evaluation of competitiveness. A country could produce goods at a very competitive price but, because of distance or lack of connectivity, it could lose its advantage. CIF prices include the international portion of transportation and logistics costs, and for the types of agri-food products that Morocco exports successfully (fresh fruit and vegetables), transportation costs tend to be high, rise quickly with distance because of their heavy weight, and also frequently require cold chains

16. These terms are used in international trade where goods have to be delivered from one destination to another through maritime shipping. CIF means that the seller is responsible for risk and insurance costs until the goods reach their point of destination with the buyer.

and proper storage facilities in order to maintain freshness and quality. The tomato and green-bean value chains are taken as illustrative examples of the sensitivity of price competitiveness in those products to the costs and quality of transportation and logistics.

Tomatoes

Tomatoes are one of Morocco's top agricultural exports and one of the main sources of income in Moroccan agriculture. Tomato value chains create an average of 9 million working days per year through production, packaging, and processing. The tomato sector has a dual production structure for both the domestic and export markets. Tomatoes for the export market are produced within more technically advanced production systems in greenhouses (6,000 hectares of greenhouses produce 1.1 million metric tons per year), and almost half of the tomatoes produced in Morocco are exported. Tomatoes targeting the domestic market are cultivated in less intensive, open-field, systems. Tomatoes are mainly produced in the Souss–Massa region, which benefits from favorable climatic conditions, but also from the presence of a skilled labor force and experienced producers. A wide range of farmers are involved in the tomato export value chain, from large producers of about 200 hectares to small producers of less than 10 hectares (*Agriculture du Maghreb*, 2019a).

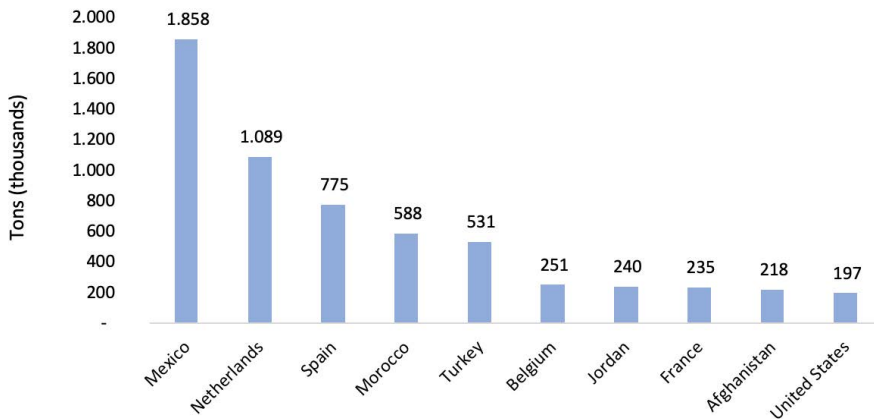
Morocco is the world's fourth largest exporter of tomatoes (Figure 11). In 2019, the Kingdom exported an average of 775,000 tons of tomatoes, as compared to 372,000 tons in 2010. The value of tomato exports grew significantly over the last decade, with an average annual growth rate of 9%. Although the unit value of exports has increased recently, exports have a strong competitive edge because of Morocco's low prices for tomatoes. The FoB price of tomatoes in Morocco is about 1.09 per kilogram, compared to 1.23 in Mexico, 1.35 in Spain, and 1.77 in the Netherlands (Figure 12 and Annex 4). Morocco's low FoB price, which excludes subsidies, appears to be driven mainly by its natural advantage—favorable climatic conditions that allow for the cultivation of high-quality tomatoes—but also because of extensive know-how and low agricultural-labor wages (compared to European peers). However, in-depth analysis would be needed to understand whether the provision of irrigation services is priced at a cost-recovery level, implying a potential water subsidy.

Comparison of FoB and CIF prices for fresh Moroccan tomatoes by market destination shows that more distant markets have higher transportation and logistics costs, which appear to be offset by lower FoB prices. In 2018, marginal transport costs (e.g. the difference between FoB and CIF) were highest for

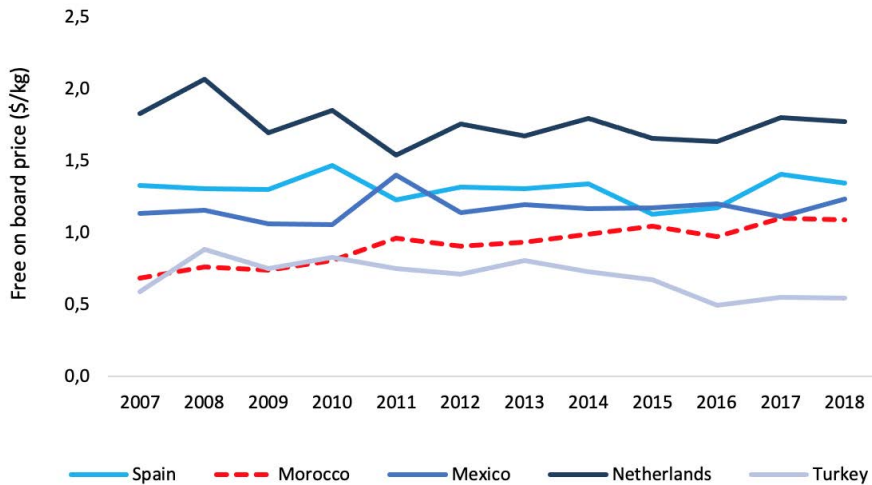
the United Arab Emirates and United Kingdom, and lowest for France and Spain, which have very good access to Morocco; in addition, sea and truck transport are well organized, and prices are lower (Annex 6). It also appears that Morocco's agricultural export FOB price tends to be lower for distant markets to compensate for higher trade costs. For example, France and the UAE had the same CIF price of 1.4/kg in 2018, but the FoB for France was 1.1/kg, while the FoB for the UAE was 0.9/kg.

Fresh tomatoes are highly perishable and require specific storage and transport conditions, which increases transport costs significantly. They require high-quality infrastructure to maintain product quality. For this reason, Morocco's exports are mainly destined for the European Union, where the performance of logistics, the efficiency of transport, and the market's proximity offer the ideal conditions for Moroccan producers.

Figure 11. Exports of the Top Five Exporters of Fresh Tomatoes (1,000 tons)



Source: FAO, 2020.

Figure 12. FoB Prices of Tomatoes in Selected Countries (/kg)

Source : World Bank.

Green beans

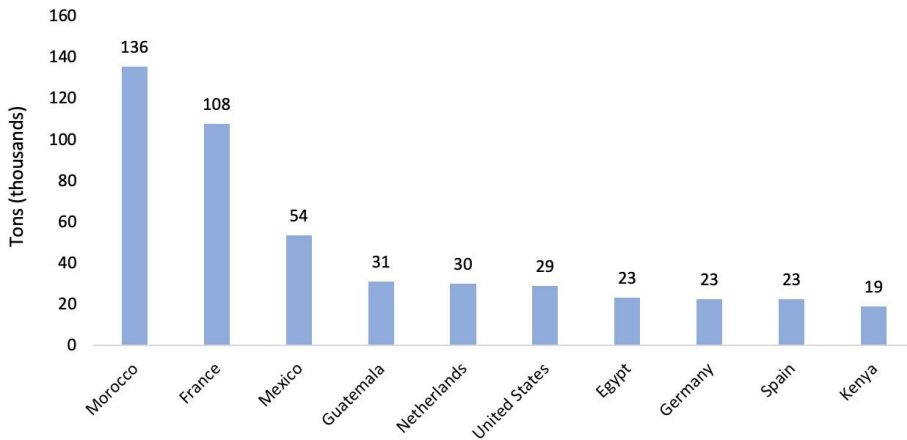
Morocco has recently become a major player in the global green bean market, thanks to economic and logistical assets that have made it competitive with key producers, especially Egypt, Kenya, and Senegal. There are two main types of beans in Morocco—the flat bean, and the green or fillet bean. The latter, which adapts well to Morocco’s diverse climatic conditions, is particularly well suited for export. The main varieties used in Morocco are either dwarf varieties grown in the open field, or rowing varieties adapted to greenhouses. Green beans are cultivated in open fields in two cycles covering practically the whole year. The share of production destined for export is substantial—80% of the volume of green bean production and 100% of flat bean production. As for flat beans, only the low-quality variety is sold on the domestic market, mainly because of the low local demand for these products, but also because of the attractive prices offered on international markets.

Morocco has become the world’s leader in terms of green beans exports. These have grown by 24% annually on average, rising from 755 tons in 1993 to 136,000 tons in 2019 (Figure 13) (FAO, 2020). Morocco’s main clients are European countries, notably France, Germany, the Netherlands, Spain, and the UK. The comparison of green bean FoB prices among the five largest exporters shows that Morocco’s exporters have a competitive edge because of lower prices

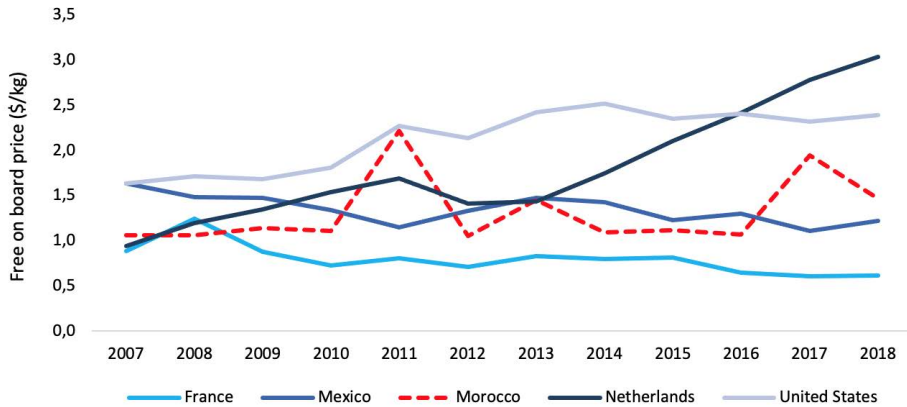
compared to the Netherlands and the United States, where prices exceed 2 per kilogram (Figure 14). However, Morocco's green bean FoB prices are higher than those in Mexico and France.

Differences between CIF prices among trading partners are explained both by distance and by differing varieties (i.e. flat or fillet beans). Because green beans need humidity and temperature control during transport, logistics costs are higher for more distant countries. For this reason, some exporters of green beans feared the exit of the United Kingdom from the European Union. Green beans require sufficient and appropriate cold-storage infrastructure. Because they already suffer from long waiting lines at the borders of Spain and France, it was feared that a third, Brexit-induced stop at the UK border could significantly reduce the quality of the product (Agriculture du Maghreb, 2019b).

Figure 13. The Top Five Exporters of Green Beans (1,000 tons)



Source: FAO 2020.

Figure 14. FoB Prices of Green Beans in Selected Countries (/kg)

Source: World Bank.

5. Constraints on Moroccan agri-food exports growth

The potential to catalyze further agri-food export growth and generate significant numbers of jobs and raise incomes in Morocco is limited by several constraints. While an in-depth analysis of such constraints lies beyond our scope here, we highlight a number of such constraints and a future research agenda. The elements of a future research agenda include the performance of the transportation and logistics sector for agri-food products, the effect of the exchange rate trajectory on agri-food exports, the ability to monitor compliance with sanitary and phytosanitary standards and farmers' ability to achieve them, traceability systems, and the capacity of Morocco's agri-producers to adopt innovative technologies and adjust to changing market conditions. The 2020-2030 GGS should tackle some of the above issues. Undoubtedly, a significant and increasingly binding constraint on the future growth of Moroccan agri-exports, and for Moroccan agriculture in general, is the severe scarcity of water and increasing frequency of drought years. Water resource availability has to be a central part of future agri-export promotion plans, including the difficult questions of water allocation to export- and domestically-oriented production in drought years.

Growth of Morocco's agri-food exports to more distant markets is constrained by Morocco's geographic location and the logistics for the export of agricultural products. Overall, agricultural products tend to have much

higher trade costs than manufactured goods, and so in general travel less (Arvis 2013). Intuitively, agricultural production is typically lower value per kg than manufactured goods, making exports more dependent on and sensitive to transport costs. Perishability also means that agro-shippers cannot easily opt for slower and less-expensive logistical solutions. However, actual supply chain patterns and constraints are very product-specific and to some extent destination-specific. There are four types of logistics applicable to agri-food products in Morocco—air cargo, specialized ships, trucking with refrigerated trailers, and containers under temperature control (so-called ‘reefers’). Annex 6 describes The main types of logistics used for Morocco’s key export products. As with the other constraints highlighted here, this is an area that requires future analysis and needs to be specific to value chains. Due to perishability, fruit and vegetable value chains are particularly sensitive to the availability of adequate logistics and transportation services, such as cold storage.

The capacity of Moroccan producers to meet food safety and quality standards in international markets needs to be reinforced. Food safety and quality are closely connected, and are essential elements for improving the added-value of agri-food products. Whereas food safety refers to all hazards that may make food harmful to the health of consumers, quality includes all other attributes that influence a product’s value to the consumer. This includes both negative (such as spoilage, discoloration, odors, etc.) and positive attributes (such as the origin, color, flavor, texture, and production or processing method of the food). Food safety cannot therefore be viewed in isolation from quality considerations. However, the complexity of both concepts requires food safety and quality aspects to be managed separately. Morocco’s coverage of NTMs related to SPS and TBT standards follows the average of its peer countries, except for Costa Rica (Figures 15 and 16). Reducing unnecessary NTMs, except those related to quality, should be a priority, not only for food security but also to show that the country is open to trading partners. This should reduce retaliation by trading partners, and improve access to other markets.

Morocco’s National Food Safety Agency (Office National de Sécurité Sanitaire des Produits Alimentaires, ONSSA) is generally considered to operate at the international level as a credible official agency for all aspects concerning the safety of agri-food products in Morocco. Since its creation, and the adoption of Law no. 28-07 of 11 February 2010 empowering it to carry out its mandate, ONSSA has adopted a number of food-safety decrees largely aligned to European Union requirements. From the outset, ONSSA opted for a quality-management system integrated at all levels of the organization: ISO 9001 for central administration and all regional directorates; ISO 17020 for regional inspection services; and ISO 17025 for laboratories. Efforts are currently underway in Morocco within the 2020-2030 GGS framework to strengthen

ONSSA's information and risk-management systems and monitoring capacity, as well as the capacity of producers to meet applied standards^{17,18}.

Figure 15: NTM Coverage Ratio for SPS Measures for Morocco and Peers

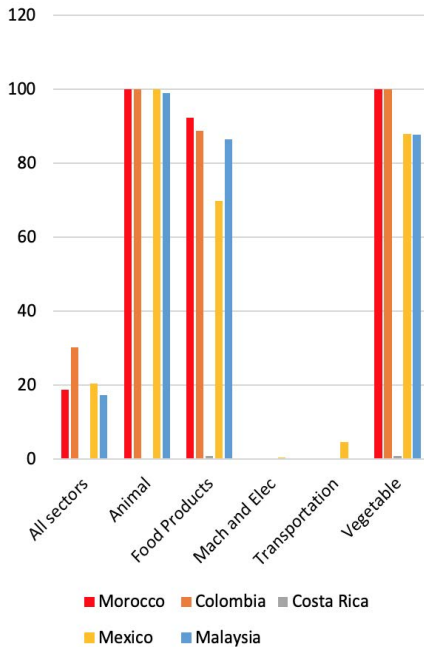
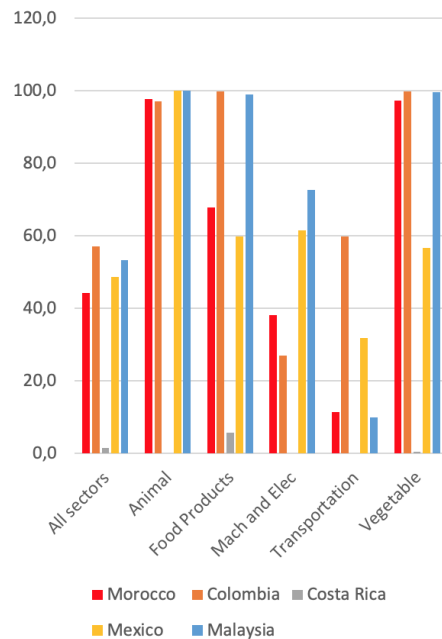


Figure 16: NTM Coverage Ratio for TBT Measures for Morocco and Peers



Source : UNCTAD Trains. Note : the trade coverage ratio, is the percentage of trade subject to NTMs.

17. Adapted from the World Bank (2020).

18. In the area of food safety and quality, the World Bank-supported Green Generation Program for Results in Morocco, approved by the World Bank Board of Directors in 2020, will focus on the upgrading of ONSSA central capacities and laboratories for plant and animal control. This will involve the strengthening of the sanitary status and safety of agri-food products, through the upgrading of the processing of requests for sanitary certificates and authorizations for small and medium-sized establishments. Additionally, it will raise awareness about the potential spread of new pests and diseases because of climate change impacts. It will also involve the strengthening of the quality and sanitary status of agri-food products through the improvement in laboratory analyses in the fields of plant and plant products, animal and products of animal origin, residues of veterinary drugs, and antimicrobial resistance.

Within agribusiness value chains, the limited ability to adapt to changing contexts and new technologies appears to be another significant limitation preventing Moroccan value chain participants from increasing their efficiency and entering new international markets. Evidence from key informant interviews, comparing fruit and vegetable and olive value chain performance in Greece, Italy, Morocco, Spain, Tunisia, and Turkey with Morocco, suggests that the main barriers to export in the sampled Moroccan value chains have to do with issues of structure and organization of the respective value chains (Mili, 2017). The most notable gaps between the EU and the non-EU countries assessed appear to relate to value-chain responsiveness to market conditions and the propensity for technology adoption and implementation, especially in the fruit and vegetables value chains in Egypt, Morocco, and Tunisia, and in the olive oil value chain in Morocco and Turkey. Such findings are consistent with a range of other assessments in Morocco, which have pointed out governance and organizational constraints that hold back further gains in efficiency and agricultural productivity (FAO 2018).

Integrating small-scale agri-producers into export value chains is an important means of attaining social development objectives as part of the building forward better agenda. An additional challenge to a successful agri-food export value chain in Morocco, as in other southern Mediterranean countries, is that a high percentage of Egyptian, Moroccan, Tunisian, and Turkish exports are being captured by large, specialized buyers integrated into European supply chains. Potential trade originating in small, poorly structured, traditional growing units is not able to effectively integrate into these commercial channels with high quality products and reliability standards (Mili, 2017). Integrating small-scale farmers and producers into modern supply chains is an important pathway for catalyzing equitable jobs and income growth in Morocco. Through the Green Generation Strategy 2020-2030, the Government is taking steps in this direction by supporting a series of wholesale markets which, if successful at integrating small-scale producers, can play a key role in enabling their integration into modern supply chains.

6. Conclusions and Policy Recommendations

Morocco's agri-food export sector is performing well considering the structural constraints it faces—geography, climate, transportation, and weaker logistics than in some competitor countries—but diversification continues to be an important objective for the future. Agri-food exports have increased over the last decade, contributing to a much lower agri-food trade deficit than when the Green Morocco Plan was first initiated. The success of agricultural exports should not be measured by the trade deficit, which is highly influenced by the state of Morocco's food security, and the need for food imports during periods of drought. Given Morocco's water scarcity, diversification will take place by adding value to exports and by differentiating products by destination market and customer preference. In this way, Morocco will be able to export more value-added agricultural or agro-processed products to diversify within its climatic limits. The government should focus on improving the sustainability and productivity of the agricultural sector within the given constraints, to maximize export values rather than volumes for new products, or derivatives of existing products that depend on market and consumer preference. Diversification of the export basket in product and destination-market terms remains an important priority for the sector's future growth which has not yet reached its full potential.

Preferential trade agreements are one avenue through which Morocco can boost its agricultural growth, as over four-fifths (81.6%) of the Kingdom's total agricultural exports are exported to trading partners with which Morocco has established PTAs. While most PTAs provide full preferential market access for agricultural products, as is the case with PAFTA, the FTA with the UAE, and the Agadir Agreement, there is partial market access with European Union, the United States, and EFTA, and none with Turkey. However, to realize the full potential of Morocco's existing and potential future trade agreements, a number of domestic reforms are needed to improve agricultural productivity, facilitate job growth, catalyse the development of more inclusive value chains, and promote best practices to improve the sustainable use of inputs. Tariffs do not appear to be the main obstacle to such expansion. Moreover, it should be noted that the maintenance of EU export quotas could potentially further concentrate the market, if expansion does not take place in countries other than Spain and France. Prevailing market concentration could also be offset through market expansion of agricultural exports to other trading partners where preferential market access already exists, by deepening existing trade agreements or through new preferential partnerships in Asia and, more immediately, on the African subcontinent, where new opportunities are emerging thanks to the AfCFTA, which affords duty-free market access to 55 neighboring countries, and will eliminate 90% of tariff lines over a five-year period (10 years for LDCs).

Morocco's agri-exports, based on an in-depth illustrative analysis of the tomato and green beans value chains, appear to be price competitive before transport and logistics costs are factored in. Further reducing transport and logistics costs, and more generally trade costs, remains an important policy priority. Morocco's agricultural export diversification subsidies, which were designed to help reduce the burden of high transportation costs, and promote access to more diverse markets, should be carefully targeted in future at innovative products, whilst not running afoul of subsidy disciplines found in trade agreements.

For some specialty products, such as almonds, or medicinal and aromatic plants like peppermint, Morocco could potentially become a large producer and exporter, resulting in a range of positive social and environmental benefits. Some constraints—such as the weak organization of small-scale producers and lack of access to processing facilities and markets—offer ways for Morocco to become a bigger producer of products with higher value-added. Investment is also needed in breeding more climate-resilient varieties, and Morocco may face constraints to scaling up their adoption because of insufficient access to agricultural extension services, and low farmer capacity to adopt innovative technologies and varieties. A strategic vision for the development of these sub-sectors, and a better understanding of such constraints, would be helpful in developing competitive fruit-tree and specialty products production and value addition in Morocco.

More generally, increasing value chain competitiveness and speeding up responses to changing market conditions, and adopting innovative technologies, require attention to fully realize Morocco's potential for fruit, fruit tree, vegetable, and olive productivity and export growth. Addressing some of the constraints preventing competitiveness gains may require social innovation, behavioral change, and the development of an ecosystem supportive of agrarian entrepreneurship.

Any forward-looking vision of Morocco's agri-food exports will also need to consider how best to leverage climate-smart and digital agriculture in boosting production and branding Morocco's sustainable and higher value-added agricultural production. This would prove particularly beneficial in enhancing access to EU markets in the long term, as market conditions there shift toward a stronger demand for healthy, sustainable, and low-carbon food sources.

Operational-level Policy Recommendations

Investment in agricultural product traceability through a strong partnership between public and private sectors is key for long-term export competitiveness. Considering that Morocco's main buyer of agri-food products is the European Union, investing in digitalization and information systems will help the country position itself well in the future relative to its competitors, especially in the context of the European Green Deal and EU Farm to Fork Strategy (F2FS). Digital information systems can help improve the traceability of agricultural exports from farms to consumers via electronic identification systems. Through such technology, Morocco's agricultural products can be labeled and marketed as sustainable and low-carbon products, increasing domestic value addition. Traceability can also improve consumer access to information on product standards, organic certification, carbon accounting, and other sustainability attributes. In the long term, sustainable exports and low-carbon products will represent Morocco's newest source of export growth and competitiveness. Efforts to identify new sources of competitiveness through traceability of sustainable products should be underpinned by strong inter-agency collaboration mechanisms, such as between the Ministry of Agriculture, Morocco Foodex, the Ministry of Industry, Trade and the Green and Digital Economy, and Portnet.

A Moroccan trademark in sustainable and low-carbon exports needs to be developed. For investments in traceability and information systems to be commercially profitable, they need to be accompanied by domestic policies that support the marketing and branding of sustainable products. It is crucial to help domestic farmers move away from harmful production practices, toward the adoption of more sustainable practices with the potential to create domestic value addition for Morocco's agri-food exports. An example of this is bovine traceability in Uruguay, where each bovine in the country is electronically identified. This was achieved through a partnership between the public and private sectors, in combination with policies that promoted enlarged market access abroad. To ensure that such policies are maximized, the policies need to be combined with strong marketing, and agricultural products need to be actively promoted in foreign markets. In the case of Morocco, this could be achieved through a strong collaboration between Portnet and Morocco Foodex, and through other relevant public-private partnerships.

Small-scale farmers' organizations need to be leveraged to improve export quality and sophistication, and to enhance market access. Support for small-scale producers to better organize their value chains through cooperatives, that are not only legal entities but are also characterized by operational and profitable business models, can improve productivity and market access. Well-established

cooperatives can help address several challenges faced by small-scale farmers by leveraging better access to finance, knowledge, and technologies, and by improving product traceability to improve relationships between farmers and consumers. Better organization among producers will enable them to make full use of EU tariff-rate quotas for agricultural products.

Strategic-level Policy Recommendations

Efforts are needed to identify new sources of export competitiveness for the new 2020–2030 strategy, with high value added and potential for diversification within products, across products, and in terms of market destinations. The implementation of the 2020–2030 Green Generation Strategy priority pillar on competitiveness and efficiency needs to be informed by improved market intelligence and private-sector consultations (including with small-scale farmers and agricultural cooperatives), and aligned to domestic investment capacity. Targeted research and closer consultations will help agricultural-sector agencies identify niche products with a high potential for export growth and diversification—not only within existing value chains (extension of products or improvements of productivity), but also in terms of new market access opportunities (enlarged market destinations). Identifying strategic value chain extensions and new market access opportunities for agricultural products will require a thorough understanding of consumer demand in destination markets, better analysis of competition from other markets (for example Eastern European agricultural exports or market prices in Asian markets), and of the political economy, regional trends, and trade costs (logistics and transport). Finally, trade costs remain a key driver of competitiveness of agri-food products, which are perishable and expensive to transport. Identification and removal of specific logistics and transport bottlenecks will be key to the success of this approach.

Value chains need to be extended and new ones developed to boost export growth and diversification, with a focus on domestic value addition. Morocco has a comparative advantage in several products, either in terms of production or because of Morocco's climate conditions. Extending value chains and developing new ones will be crucial to improving export growth and diversifying through quantity and quality (and export value). This could be achieved by introducing new resilient product varieties, for instance where the shelf life of fruit and vegetables is improved, or by investing in supply-chain facilities such as irrigation, perishable cargo, thermal processing systems. Examples of value chain extensions are not limited to dried fruits, jams, juices, spread, concentrates, purees, and other culinary supplements. The extension of value chains will require

intensifying production through organic certification and thermal processing, which can raise the value of agri-food exports.

Finally, sanitary and phytosanitary controls need to be complied with in new markets and for new products, while domestic standards should be facilitated. Since agricultural products are very important for Morocco's exports, they can typically be subject to trade-based restrictions in terms of SPS measures in destination countries. It will be crucial for Morocco to work closely with relevant agencies at home and in destination markets, and with domestic firms, to ensure compliance with market standards. Streamlining responsibilities across ministries to ease access to information will be central to achieving higher levels of compliance. In recent years, Morocco has improved its domestic policies and quality infrastructure related to SPS standards, and aimed to go paperless by 2021. Streamlining SPS procedures at domestic borders will facilitate the process for domestic producers, which need to import inputs, and for foreign partners that export to Morocco. Morocco can use this as a leverage in its negotiations for SPS controls in new trade agreements.

Annex 1

Table 1. Morocco: Top Agricultural Imports, 2005–2018

Products	Average 2005–07 (thousands)	Share in total agricultural exports (%)
Wheat	648,397	23
Maize	300,101	11
Oil, soybean	231,337	8
Sugar raw centrifugal	206,803	7
Soybeans	156,889	6
Crude materials	111,223	4
Barley	101,266	4
Tea	90,244	3
Butter, cow milk	68,484	2
Beet pulp	64,996	2

Products	Average 2016–18 (thousands)	Share in total agricultural exports (%)
Wheat	1,045,229	20
Maize	449,524	9
Sugar raw centrifugal	449,395	9
Oil, soybean	387,081	8
Tea	213,309	4
Cake, soybeans	207,737	4
Crude materials	174,592	3
Dates	127,961	3
Cigarettes	118,097	2
Barley	103,383	2

Source: World Bank calculations based on FAO data.

Table 2. Morocco: Top Agricultural Exports With High RCA, 2005–2018

	Average 2005–07 (thousands)	Share in total agricultural exports (%)	Estimated revealed comparative advantage
Green beans	78,747	5.7	151
Processed cheese	89,189	6.4	96
Canned olives	97,159	7.0	65
Tangerines, mandarins, clementines, satsumas	177,364	12.7	64
Pumpkins, squash and gourds	22,257	1.6	49
Vegetables, temporarily preserved	18,946	1.4	41
Oranges	112,568	8.1	37
Dried pyrethrum	198	0.01	34
Other melons	36,986	2.6	30
Tomatoes	146,750	10.6	24
	Average 2016–18 (thousands)	Share in total agricultural exports (%)	Estimated revealed comparative advantage
Green beans	214,500	6.7	177
Peppermint	1,230	0.04	86
Blueberries	99,054	3.1	53
Tangerines, mandarins, clementines, satsumas	315,680	9.9	48
Canned olives	144,387	4.5	46
Tomatoes	592,565	18.6	45
Vegetables, temporarily preserved	34,108	1.1	42
Watermelons	80,283	2.5	32
Green onions and shallots	9,324	0.3	32
Dried pyrethrum	986	0.03	27

Note: The table reports the top 10 exports.

Source: World Bank calculations based on FAO data.

Table 3. Morocco's RCA of Selected Promising Agricultural Products

Products	Revealed comparative advantage	Products	Revealed comparative advantage
Green beans	222	Green chilies and peppers	21
Peppermint	73	Strawberries	14
Blueberries	61	Oranges	12
Tangerines, mandarins, clementines, satsumas	57	Olives	9
Tomatoes	56	Avocados	7
Olives preserved	54	Vegetables in vinegar	6
Watermelons	52	Peeled tomatoes	5
Onions, shallots, green	47	Virgin olive oil	5
Melons	31	Green peas	2
Pumpkins, squash and gourds	25	Peaches and nectarines	2

Source: World Bank calculations based on FAO data.

Table 4. Comparison of CIF and FOB Prices of Moroccan Fresh Tomato by Market, /kg

	France		Spain		United Kingdom		United Arab Emirates	
	CIF	FOB	CIF	FOB	CIF	FOB	CIF	FOB
2008	1.0	0.8	1.1	0.8	1.4	0.5		
2009	1.0	0.7	1.0	0.8	1.3	0.6		
2010	1.1	0.9	1.1	0.9	1.3	0.5		
2011	1.0	1.0	0.9	1.1	1.6	0.5		
2012	0.9	1.0	0.9	1.0	1.7	0.8		
2013	1.0	1.1	1.0	1.0	1.5	0.8		
2014	1.1	1.2	1.0	1.3	1.6	0.9	2.3	0.8
2015	1.1	1.1	1.0	1.2	1.5	1.3	1.6	0.9
2016	1.2	1.3	1.0	1.2	1.4	1.2	1.5	1.0
2017	1.4	1.1	1.2	1.3	1.5	1.3	1.7	0.9
2018	1.4	1.1	1.1	1.0	1.5	1.0	1.4	0.9

Source: World Bank calculations, 2020.

Table 5. Comparison of CIF and FOB Prices of Moroccan Green Beans by Market, /kg

	France		Germany		United Kingdom	
	FOB	CIF	FOB	CIF	FOB	CIF
2008	1.1	2.1	0.9	2.0	1.0	2.6
2009	1.0	2.4	0.5	2.0	0.6	2.3
2010	0.9	2.7	1.5	2.1	0.6	2.4
2011	0.9	4.0	1.6	1.8	0.9	2.7
2012	-	-	1.7	1.9	0.7	2.4
2013	0.9	3.7	1.6	1.9	-	-
2014	0.9	4.8	1.1	2.0	2.4	1.5
2015	0.9	3.5	1.1	1.6	2.2	1.5
2016	2.8	3.2	1.3	1.3	1.9	1.7
2017	1.1	2.6	1.1	1.7	1.9	1.6
2018	1.1	3.1	0.9	1.2	1.0	1.9

Source: World Bank calculations, 2020.

Annex 2: Supply Chain Perspective on Morocco's Agro-trade and Logistics

Logistics options for Moroccan agri-food exports

Overall, agriculture products tend to have much higher trade costs than manufactured goods, and thus in general travel less (Arvis 2013). Intuitively, agricultural production typically has lower value per kilogram than manufactured goods, making it more dependent and sensitive to the costs of transportation¹⁹. Furthermore, perishability means that agro-shippers cannot easily opt for slower and less expensive logistical solutions. However, the actual supply chain patterns and constraints are very product- and to some extent destination-specific.

There are four type of logistics applicable to agri-food products in Morocco: trucking with refrigerated trailers, containers under temperature control (reefers), specialized ships, and air cargo.

Trucking with refrigerated trailers. These are the most important transport market segment for the agri-food sector in Morocco. This mode offers one of the fastest connections from origin (typically packing stations close to the production area) to destination (typically wholesale markets or wholesalers). It applies only to markets connected to Morocco by land corridors. Morocco essentially has two corridors going to France (through Spain), and, more recently, to Mauritania and Senegal.

The corridor to wholesale markets in France (Perpignan or Paris) is very well organized by European (Spanish) trucking firms with Moroccan traction partners. Crossing the straight at Gibraltar is also quite fast through Tanger Med (short sea crossing, with specialized facilities). Exporters have a toll road from Agadir to anywhere in Europe. However, given distances (2,000 kilometers), the cost of transportation is not negligible, at around 3,000–4,000 euros or 20–30 eurocents per kilogram (11.5 eurocents per kilogram per 100 kilometers), which limits the appeal of trucking further in the EU or beyond.

Truck logistics are available to the growing agro-trade with West Africa through the West African corridor. Transport investments by Morocco along the corridor have vastly facilitated this trade. The connection is potentially beneficial to the partner countries as Moroccan trucks have return capacities that can accommodate local production not available in Morocco.

19. This annex was prepared by Jean Francois Arvis.

Containers under temperature control (reefers). Refrigerated containers can be used for meat, fish, and fresh produce or citrus. The port of Tanger Med offers direct connections (preferable to transshipment for reefers in order not to risk interrupting the cold chain) to many destinations—the Arab Gulf, the eastern Mediterranean, or North America, facilitating geographic diversification. Thus, reefers may be the preferred logistical means for diversifying agro-trade beyond nearby markets. However, they may not be adequate for some products with short shelf lives, such as vegetables, given the longer transport lead times compared to trucking.

Reefers are the main solution to exporting large quantities over large distances. One typical problem is that reefer containers may not be readily available close to production areas.

Specialized ships. Citrus is loaded onto fruit ships making connections between terminals in Morocco (notably Nador) and, mostly, France or Spain. The ships are directly loaded with pallets from/to dedicated facilities in ports. Citrus is also trucked via the Morocco–Europe corridors, or put into reefers for other markets. Industrial shipping in the Atlantic also uses specialized ships.

Air cargo. This possibility probably makes sense only for Arab Gulf countries and West Africa, given existing connections. It would be worth assessing which facilities are available for cold chains at Casablanca airport (Mohammed V).

A related factor is the order cycle: whether exporters are operating push or pull logistics. Historically, Moroccan exporters have pushed their crops to a few wholesale markets in Europe rather than responding to orders from, say, supermarkets. Pull logistics requires greater agility and supply chain competence, but it helps with geographical diversification.

Geographical diversification constrained by logistics, depending on the product

Technically, reefer containers offer a logistics solution more conducive to geographical diversification than direct trucking or specialized ships. Air cargo is also constrained and limited to niche markets.

Product differentiation. Another consideration affecting diversification is the degree of product differentiation. Notice of Moroccan origin associated with excellence or uniqueness of the product is an asset for geographical diversification. Known Moroccan products include clementines (de Berkhane). The medjool date is the highest-value date originally from Morocco, but production has not recovered from infestation in the early twentieth century, and unlike in Algeria

or Tunisia, information regarding date production in Morocco is confidential. Morocco is also known for essential oils (argan).

Table A.2.1. Agri-food products, types of logistics and destination markets.

Product	Type of Logistics	Destination
Citrus	Trucking	France
Citrus	Fruit ships from Nador	France
Citrus	Reefer	Some anecdotal evidence of diversification to distant markets for clementines
Fresh production	Corridor to Europe	Based on seasonal complementarity
Fish, Mediterranean	Refrigerated trucks reefers	Artisanal production with potentially high value fish Reefers not available in fishing ports
Fish, Atlantic	Ships or refrigerated trucks	Industrial
Olives	Trucks, containers...	Undifferentiated

Areas for future analysis

Recent supply-chain analysis can help explain the preferred logistics for each market destination by providing a sense of the cost structure, including transportation, of the product delivered to wholesale markets in the destination country.

Empirical evidence on the growth of certain supply chains can also emerge from the following sources:

- **From trade statistics:**
 - Trends in exports, including perishable products, to western African countries;
 - Geographical trends in identification of citrus exports (such as clementines vs oranges), with the view of identifying growth and expansion in nontraditional markets: North America, Eastern Europe, Russia, and so on;
- **From data to be obtained from customs or ports:**
 - Statistics on destinations of export reefers in recent years;
 - Air cargo statistics.

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4

BOOSTING MOROCCO'S SERVICES TRADE PERFORMANCE¹

Oumayma Bourhriba & Pierre Sauvé

Key Messages

- **Morocco's economy has in recent decades transformed progressively from an agricultural economy into a manufacturing and services-led one.** This structural transformation has produced a sustained rise in average incomes and contributed to a significant decline in the incidence of poverty. Morocco's economic progress can be attributed to political and macroeconomic stability, sustained investments in human and physical capital, particularly trade-facilitating infrastructure, and, until recently, a strong commitment to open markets for cross-border trade and investment.
- **While Morocco's development trajectory has been impressive, particularly from the perspective of its immediate periphery, the Kingdom faces several major challenges.** These include coping with the lingering trade and economic shocks and supply-chain disruptions induced by the COVID-19 pandemic, which has been most palpable in services markets, particularly the travel and tourism industry that forms a central component of Morocco's export basket and is a major source of employment. Morocco must also contend with the root causes of a growth slowdown that predated the pandemic, and which has prompted a questioning of the country's development model and the roles to be assigned to trade, investment, and industrial policies.

1. The authors are grateful to Uri Dadush and Abdelaaziz Aitali for helpful comments, and to Joscelyn Magdalen and Ingo Borchert for providing access to latest STRI estimates and related information.

- **The service sector is an important source of growth for the Moroccan economy, contributing three-fifths of aggregate output. The sector is also the country's leading source of employment, supplying just under half (46%) of formal sector jobs at the latest count. In both regards, however, Morocco's performance lags those of a cohort of comparator countries within and beyond its region, and stands below world averages².**
- **A particular Moroccan weakness relates to the labor-force participation rate of female workers** which, while higher in services (34.6%) than for the economy as a whole (24.3%), stands significantly below world, regional (sub-Saharan Africa and MENA), and Arab world averages. Such a sub-optimal use of human capital can prove highly prejudicial to service-sector growth, and to female empowerment and associated socio-economic gains more broadly (World Bank and WTO, 2020).
- **Morocco's labor productivity in services registered a 12% gain over the 2010-19 period, paralleling that achieved in Moroccan industry.** While Morocco's value added per worker in services lags that of leading regional peers by significant margins, it has recorded the second highest productivity performance in services on the African continent over the past decade (after Egypt), though seemingly driven more by gains in non-traded public sector activities than in private-sector tradable activities.
- **Trade in services is of central importance to Morocco's external accounts, producing surpluses equal to two-fifths of the country's structural merchandise trade deficit in recent years.** Morocco's services exports reached 13.3 billion in 2020, a 30% year-on-year drop. Services supplied 47% of total Moroccan exports in 2019, contributing 11.7% of aggregate output. This share dropped to 33% percent in 2021 in the wake of COVID-19. Expressed as a share of the value added of total Moroccan exports, the contribution of services is a fifth higher. Services exports exceed those of manufacturing when expressed in local value-added terms. Morocco's positive trade balance in tourism alone equates to 5% of GDP.
- **Morocco was the world's 47th largest exporter of commercial services in 2020, a rank that has changed little over the past decade.** The country's trade performance in services places it second on the African continent and fifth within the MENA region. Large inflows of worker and migrant remittances, estimated to have reached 6.5% of GDP at latest count, further offset Morocco's goods trade imbalance. The magnitude of such flows is a reminder of the importance of securing greater benefits from the labor-mobility provisions that need to be anchored in Morocco's trade agreements, and

2. The world average share of services in GDP was 65% in 2019, and 51% for employment in services.

addressed more ambitiously in bilateral migration governance instruments.

- **While Morocco's export propensity in services is high relative to its income level, the Kingdom's services export basket remains concentrated in traditional services, such as travel and transportation, which account for just under half (47%) of total exports of commercial services.** The share of modern services, such as business, professional, or ICT-related services, has witnessed sustained growth in recent years, accounting for two-fifths (41.4%) of total services exports. The COVID-19 pandemic has provided a significant boost to the country's nascent e-commerce platforms and to digital services exports (Daza Jaller et al, 2022), for which Morocco has harnessed its sophisticated regulatory ecosystem and vibrant private sector to rank among the top two African suppliers of ICT and digitally deliverable services (UNCTAD, 2020).
- **Morocco's services trade shows signs of increasing geographical diversification in recent years, notably in light of the strong growth of 'modern' service exports directed to African clients.** Still, continued efforts at product diversification are needed to reduce Morocco's high dependence on the travel and tourism sector, which supplies more than half of services exports, and experienced a steep decline in the wake of pandemic-induced travel bans and lockdowns. Despite sustained public investment and significant improvements in the country's connectivity-enhancing infrastructure, Morocco also needs to improve its overall logistics performance, which lags that of regional and income-group peers.
- **Morocco enjoys a revealed comparative advantage (RCA) in a range of services linked to goods-trade, travel, transportation, construction, and ICT-related services, including sophisticated business-process outsourcing activities.** Morocco's emergence as a significant outward investor, particularly on the African continent, attests to competitiveness gains and export potential in financial (retail banking and insurance), telecommunication, and professional services.
- **Among its regional peers in Africa, and (especially) the MENA region, Morocco maintains a relatively open trade regime for services, as reflected in the latest update of the World Bank's Services Trade Restrictiveness Index.** Like most countries, Morocco maintains its most onerous restrictions in the area of professional services. Still, Morocco's applied regulatory policies in services leave significant room for further market opening, whether pursued autonomously or through new and/or enhanced commitments within its network of preferential trade agreements and at the World Trade Organization.

- **A closer look at Morocco's global ranking on a number of key governance indicators of relevance to service-sector performance suggests that significant potential exists to enhance the regulatory and business ecosystems for services, and to align them more closely to international best practice.** A sustained commitment to a range of governance reforms can all be expected to yield significant gains in efficiency and inclusiveness, while boosting the country's trade and investment performance. Reforms should include improvements in regulatory and institutional performance; the promotion of greater domestic-market contestability through greater competition law activism; supplying larger cohorts of knowledge workers through improved tertiary education and vocational training; enhancing logistics performance; empowering female workers and entrepreneurs; and stepping-up trade and investment-promotion efforts.
- **Morocco needs to ensure that services are comprehensively addressed in its trade agreements,** something it has so far only done with the United States and, most recently, in the context of ongoing services negotiations under the African Continental Free Trade Area (AfCFTA). Morocco has exhibited greater caution by formally participating in only one of several ongoing plurilateral negotiations at the WTO with significant implications for service-sector governance: investment facilitation for development. Despite its stated desire to assume a leading role in AfCFTA negotiations on digital trade, Morocco has yet to formally join ongoing plurilateral negotiations on e-commerce, which cover more than half the WTO's membership. Nor has Morocco signed up to recently concluded plurilateral talks on services domestic regulation, the aim of which is to reduce red tape and associated trade costs linked to qualifications, licensing, and standards-related matters in services markets. Morocco's greater involvement in all of the above initiatives would offer key channels through which a more central role for services in boosting trade and enhancing domestic governance can be pursued.
- **Sustained efforts are needed to improve trade and investment data on services.** Efforts targeting bilateral services exports by partner countries are especially important in Morocco's case, given that services account for almost half of the country's total trade. Efforts also need to be directed at providing a more disaggregated breakdown of services trade conducted by foreign affiliates in Morocco, and in foreign markets, given Morocco's recent ascendance as an exporter of capital in services.
- **This chapter's core message is that policy efforts need to be directed to harnessing more fully the economic and trade potential of Morocco's service sector,** both as a source of domestic structural change, and as a

means of needed trade and investment diversification. Morocco's diverse service economy warrants closer policy attention relative to the traditional prioritization of manufacturing in the country's trade and industrial policies. Morocco needs to strengthen its inter-agency coordination process in services and enhance the quality of policy dialogue with external service stakeholders. Both of these actions would favor the emergence of policy initiatives and reform efforts informed by economy-wide considerations. The relative neglect of services is much in evidence in Morocco's commercial diplomacy, which continues to focus predominant attention on boosting merchandise trade exports, and has devoted less attention than warranted to pursuing the potential gains from stepped-up engagement in services negotiations.

- **Looking ahead, services will need to feature more prominently in the design and implementation of Morocco's trade diplomacy than they have to date.** Harnessing the potential of services raises important organizational and coordination challenges among key public and private players, given the sector's considerable diversity and scattered governance. The establishment of a Moroccan Coalition of Service Industries could play a critical role in federating the sector's many voices (currently organized along segmented vertical lines), and could champion the pursuit of regulatory reforms with economy-wide impacts. Stepped up efforts at trade and investment promotion will also need to be deployed by AMDIE, the Kingdom's trade and investment promotion agency, in assisting Morocco's competitive service suppliers to diversify and increase the range and quality of their service offerings, and to secure a stronger foreign-invested foothold in key markets. This will particularly be the case for Africa, the European Union, and the Gulf region, where competitiveness-boosting attributes of geographic, cultural, and linguistic proximity are most prominently on offer.

I. Background considerations

The world economy has in recent decades been through far-reaching structural changes that have brought services to the forefront. Services today dominate the production and employment landscape of economies and are doing so at earlier stages of economic development. Services are also increasingly prominent in international trade and investment. Accounting today for about half of world trade expressed in value added terms, and over two-thirds of foreign direct investment, services have for close to three decades been the most dynamic component of international trade and cross-border investment activity (WTO, 2020).

The rising importance of services in trade and economic development has amplified the impact and relevance of government policies affecting trade in services. Services trade policies, which cover a wide range of 'behind-the-border' measures of a regulatory nature, are an important determinant of foreign direct investment, economy-wide productivity, and export performance. Services trade policies are also fundamental to anchoring a country's participation in regional and global production networks.

Services and services trade policies can also play a central role in economic diversification. As key inputs to whatever a nation produces most competitively, services facilitate exports of new or upgraded products and expansion into new markets. Services trade policies are key components of a policy framework and business climate that facilitates competition and investment in new activities, boosts private sector expansion, and favors the reallocation of resources towards higher productivity activities, resulting in greater overall resilience and more inclusive growth trajectories (World Bank, 2020).

Access to a more abundant, higher quality, and lower-priced basket of services input, and to more efficient infrastructure services (including energy, transport, logistics, distribution, and payment services) strongly correlates with increased exports of goods and services, as can be seen from Morocco's trajectory in agri-food and manufactured goods exports. Meanwhile, efficient and affordable telecommunication services are fundamental to taking advantage of the export growth opportunities associated with an increasing array of ICT-enabled services via digital platforms.

The Kingdom of Morocco is no exception to the meta trends depicted above, as services account for the largest share of aggregate output, and provide jobs to a majority of Moroccan workers. The sector's strong export performance, producing a trade surplus that compensates for two-fifth of Morocco's perennial merchandise trade deficit, and the rising volume of outward foreign direct investment (FDI) it has generated, particularly in neighboring African markets, suggest that the sector offers significant untapped potential for further growth, and is also worthy of greater attention than it has received to date in the country's trade policy choices.

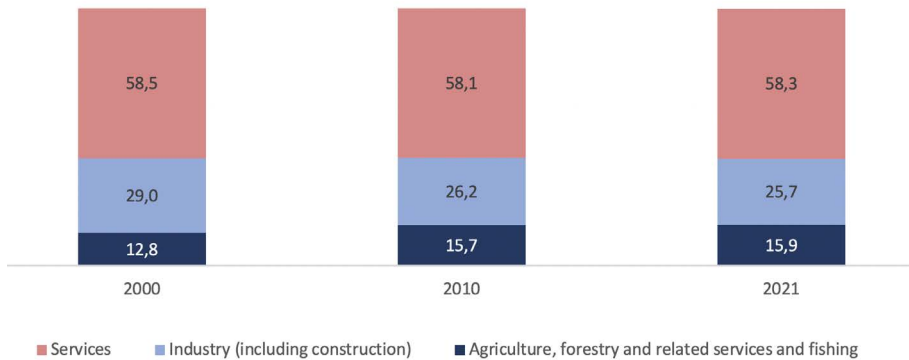
This chapter addresses Morocco's trade and investment performance in services. It reviews the contribution of services to ongoing changes in the structure of Morocco's economy, reviews the country's policy regime in services, and draws attention to a number of policy and governance challenges that require more focused attention if the full potential of services in terms of domestic performance and export growth is to be realized. A key conclusion is that the sector needs to command a more prominent role in the formulation of Moroccan trade and investment policy.

II. Situating Services in the Moroccan Economy

a. Services in Aggregate Output

The service sector is a key driver of Moroccan economic growth, contributing more than half of aggregate output on average over the last decade. The share of services in value added stood at 58.3% at the end of 2021, up marginally from the level in 2000 (Figure 1), but below the world average of 65%.

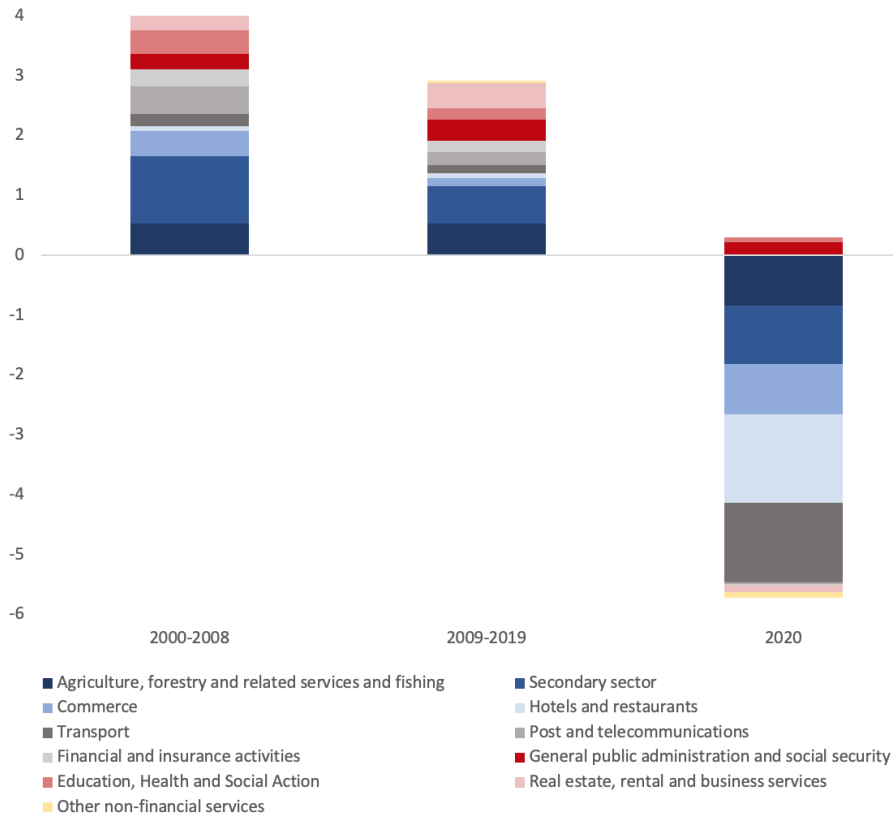
Figure 1. Morocco: Share of Services in GDP, 2000, 2010 and 2021 (%)



Source: Haut Commissariat au Plan.

Morocco's growth rate decelerated markedly in recent years, with the relative contribution of the service sector to GDP growth declining from 55.7% on average between 2000 and 2008, to 49.5% from 2009 to 2019 (Figure 2). The COVID-19 pandemic exacted a heavy toll on the Moroccan service sector, which experienced a 7.1% contraction in 2020 in the wake of simultaneous lockdowns in commercial, travel-related transport, accommodation, and catering activities.

Figure 2. Morocco: Sectoral Decomposition of Growth, 2000-2020 (percentage points)



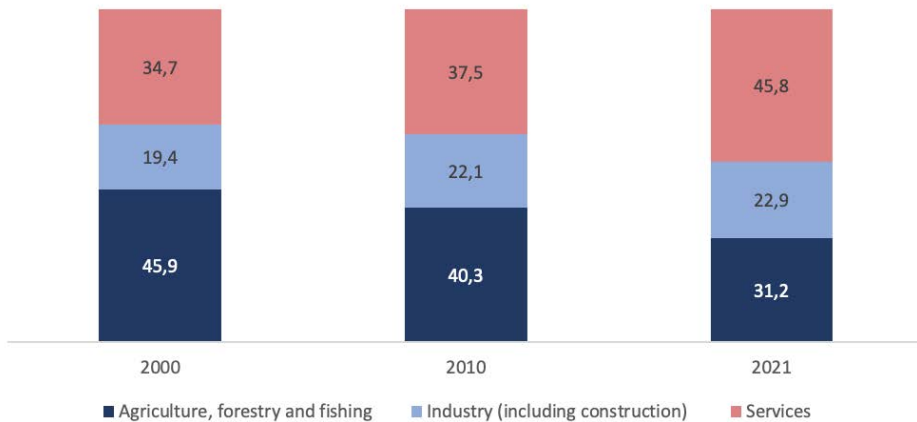
Source: Haut Commissariat au Plan.

b. Trends in Service Sector Employment and Labor-Market Performance

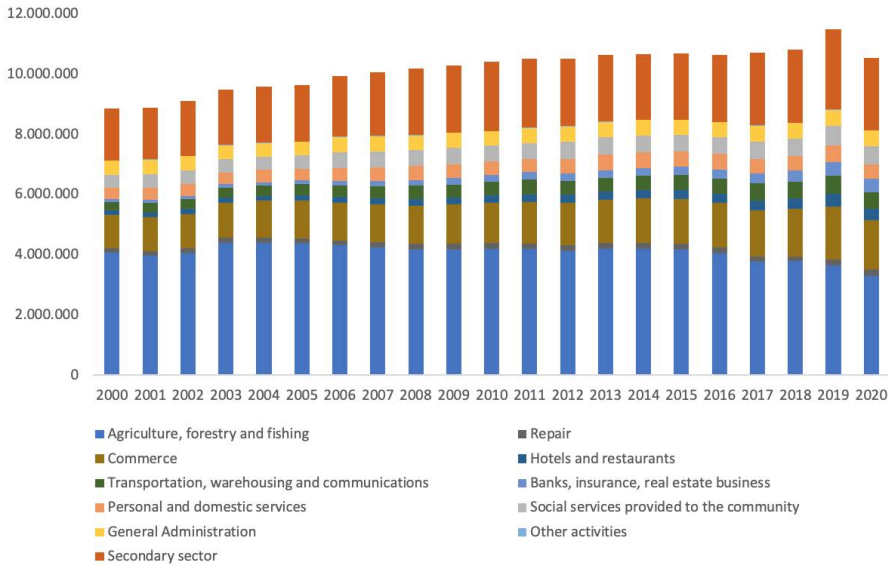
The service sector is the leading source of employment in Morocco, supplying 46% of formal sector jobs at the latest count, and accounting for a predominant share of informal sector activity, notably in rural areas. Trends in Moroccan employment offer evidence of marked shifts in the country's economic fabric, with service sector jobs close to a third higher today than was the case two decades ago. Such a trend parallels a proportionate decline in agricultural employment, where the employment share declined from 45.9% to 31.2% over the period, while manufacturing jobs registered a modest gain (Figure 3).

Figure 4 offers a breakdown of employment by sector, showing the progressive ascendance of service sector employment from 2007 to 2020, led by retail trade (commerce), construction (building and public works), tourism (hotels and restaurants), and finance. However, as with the share of services in aggregate output, the sector's contribution to employment lags the world average (52%). This points to the scope that exists for continued labor reallocation across sectors, fueled by sustained improvements in educational levels, particularly of females, which may notably be expected to reduce the current high level of female employment in agriculture (which stood at 46.9% in 2019), and in light of continued recourse to labor-saving production methods in advanced manufacturing.

Figure 3. Morocco: Share of Employment by Sector, 2000, 2010 and 2021 (%)



Source: Haut Commissariat au Plan.

Figure 4. Morocco: Employment by Sector, 2007-2020

Source: Haut Commissariat au Plan.

Morocco's ongoing process of structural change towards a more service-centric economy has generated employment gains across the broad spectrum of service sector activities. This can be seen from Figure 5, which shows that all service sub-sectors—whether traded or non-traded, commercial or publicly-supplied—recorded employment growth between 2007 and 2019.

Morocco's labor productivity in services registered a 12% gain in 2019 compared to 2010, paralleling advances observed in the country's manufacturing sector. While Morocco's value added per worker in services lags by significant margins that of leading regional peers (Tunisia and South Africa), it recorded the second-highest productivity performance in services among leading African economies over the past decade (Table 1). Evidence suggests, however, that Morocco's productivity performance in services owes more to gains in non-tradable public services than to private sector-led tradable activities (Aitali and Msadfa, 2019).

Sustaining labor-productivity gains through continued advances in tertiary and vocational education, and a supply of knowledge workers aligned to evolving labor-market needs, will prove crucial to Morocco's transition to a service-led economy. A further challenge weighing on Moroccan labor productivity

stems from the high degree of informal sector employment still prevalent in the country's service economy. While Morocco has made significant strides in scaling up skill levels—enrollment in tertiary education nearly quadrupled over the past two decades³—its performance in job creation for skilled workers, particularly younger workers and females, remains problematic (Lopez-Acevedo et al, 2021)⁴. A measure of the human capital challenge Morocco faces can be seen from the 2021 edition of the Global Innovation Index produced by the World Intellectual Property Organization, which ranked Morocco 97 among 132 economies in the supply of knowledge workers, and 115 with regard to knowledge-intensive employment⁵.

Table 1. Value-added Per Worker in Services, Selected Economies and Regions, 2010 and 2019⁶

Country/region	2010	2019	Δ 2010-19 (%)
Egypt	8 734.9	10 140.5	+15.97
Kenya	3 502.5	3 597.6	+2.71
Morocco	11 974.6	13 429.2	+12.14
Nigeria	7 418.5	8 103.6	+9.23
Tunisia	15 505.7	17 107.8	+10.33
South Africa	22 735.5	22 807.9	+0.31
Sub-Saharan Arica	6 950.2	6 742.4	-3.08
Middle East and North Africa	20 711.1	19 320.9	-7.19

Source: World Bank, World Development Indicators.

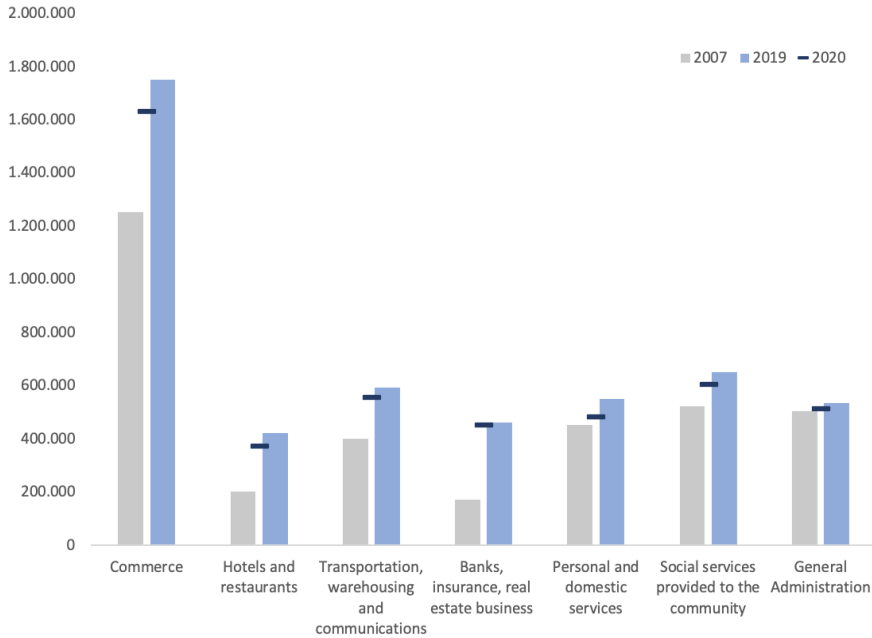
3. School enrollment in tertiary education reached 38.5% in 2019, up from 10.2% in 2000. The level for female students stood at 39.1% in 2019.

4. The unemployment rate among Moroccans with advanced education was 30.3% in 2019, three times the level for all worker categories (10.2%). Unemployment levels are even higher among Moroccan females with advanced education, reaching 41.3% in 2019.

5. See https://www.wipo.int/edocs/pubdocs/en/wipo_pub_gii_2021.pdf.

6. Figures are expressed in constant 2010 U.S. dollars.

Figure 5. Morocco: Trends in Service Sector Employment by Sub-Sector, 2007, 2019 and 2020



Source: Haut Commissariat au Plan.

A persistent weakness of Moroccan labor market performance, pervasive within the MENA region and the Arab world more broadly, relates to the low participation rates of female workers in the country's labor force. While broadly aligned with trends observed throughout the Arab world, Morocco's performance stands significantly below the world and African averages (Table 2).

Table 2. Labor-force Participation Rates of Females, Selected Economies and Regions, 2019 (% of female population ages 15+)

Country/region	Labor force participation rates (%)
Egypt	18.5
Kenya	72.0
Morocco	21.6
Nigeria	48.5
Tunisia	25.3
South Africa	45.6
Sub-Saharan Africa	61.3
Middle East and North Africa	19.8
Arab World	20.3
World	47.3

Source: World Bank, World Development Indicators.

While the employment presence of Moroccan women is higher in services (34.6%) than in the economy as a whole (21.6%), female employment levels in services are markedly lower than those observed in regional (sub-Saharan Africa, Arab World) and world averages (Table 3). Such trends contrast with the marked educational advances Moroccan females have registered over the past two decades, reaching parity in high school graduation levels, and accounting for a majority of graduates in tertiary education. Morocco's sub-optimal use of its human capital is highly prejudicial to the growth and competitiveness prospects of its service economy, given the predominance of female employment in the sector, and the socio-economic gains flowing more generally from female empowerment (World Bank and WTO, 2020).

Table 3. Female Employment in Services, Selected Economies and Regions, 2010 and 2019 (%)

Country/Region	2010	2019
Egypt	51.1	70.8
Kenya	31.5	39.0
Morocco	25.8	34.6
Nigeria	55.8	63.6
Tunisia	47.1	58.5
South Africa	83.2	84.2
Sub-Saharan Africa	33.4	39.7
Middle East and North Africa	59.9	70.1
Arab World	55.6	65.9
World	51.3	59.3

Source: World Bank, World Development Indicators.

III. Trends in Services Trade and Investment

a. Trade in Services

Trade in services is of central importance to Morocco's external accounts, contributing a third (32.8%) of the Kingdom's aggregate exports (goods and services) in 2021, down from 36.9% in 2020, and 47% in 2019 in the wake of COVID-19-related lockdowns. Morocco's services have exports more than doubled since 2005, peaking at 186 billion dirhams in 2019 (Figure 6). Reflecting the rising share of services in the Kingdom's exports of agricultural and manufacturing products—a process often depicted as 'servicification'—the contribution of services is almost a fifth higher when expressed as a share of the value-added of total Moroccan exports (OECD, 2018). Data from the Office des

Changes du Maroc reveal the severity of the impact the COVID-19 pandemic had on Morocco's services exports, which stood just under 131 billion dirhams at year-end 2020, a 29.5% drop compared to 2019.

**Figure 6. Morocco: Merchandise and Services Exports, 2010-21
(million dirhams)**



Source Office des Changes du Maroc.

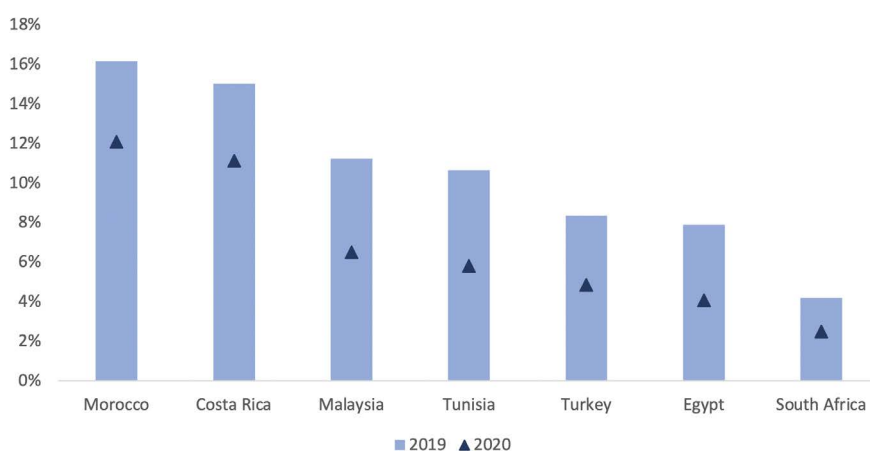
Morocco was the world's 47th largest exporter of commercial services in 2020, a rank that has changed little over the past decade. The Kingdom's trade performance in services places it second on the African continent, and fifth within the MENA region (Table 4).

Table 4. Morocco: Export Performance in Services, 2010-2020

Year	Value of services exports (US million)	Share of services exports in GDP (%)	Rank in Africa*	Rank in MENA**
2010	14736.1	15.8	3	4
2015	14673.5	14.5	3	6
2018	18633.7	15.8	2	5
2019	19370.4	16.4	2	5
2020	13268.0	11.7	2	5

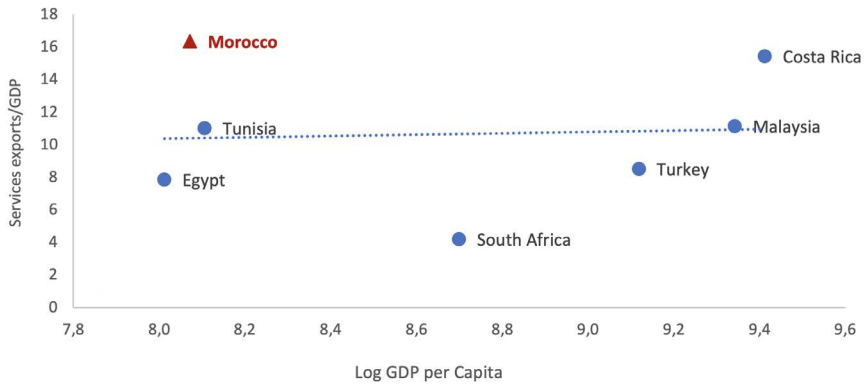
Source: WTO, Statistics on trade in commercial services. Note: * = sample size, 47 economies.
** = sample size, 15 economies.

Services exports contributed 16.4% of aggregate output in 2019, a higher level than found in many regional and comparator countries (Figure 7). This reflects Morocco's higher than average propensity to export services, both relative to its income level, and to comparator peers and the world (Figures 8 and 9).

Figure 7. Share of Services Exports in GDP, Selected Economies, 2019-20 (%)

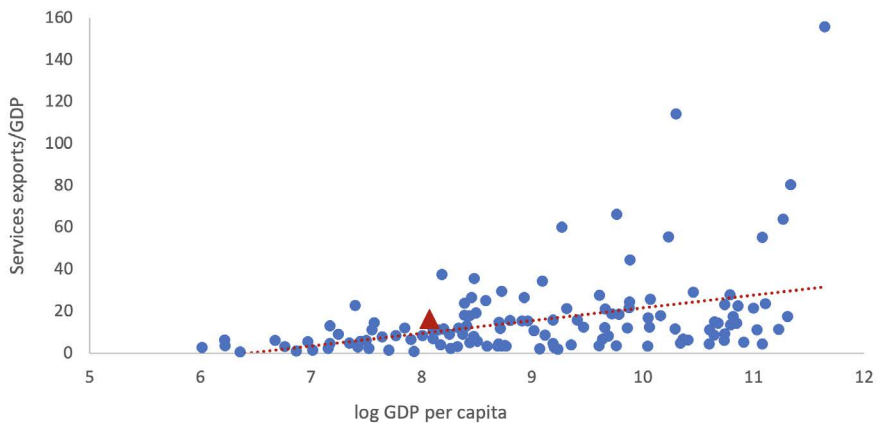
Source: UNCTADStat, Statistics on international trade in services.

Figure 8. Export Propensity in Services by Income Level, Selected Economies, 2019



Source: UNCTADStat, World Bank World Development Indicators and authors' calculations.

Figure 9. Services Exports as a Share of GDP, World Economy (2019)



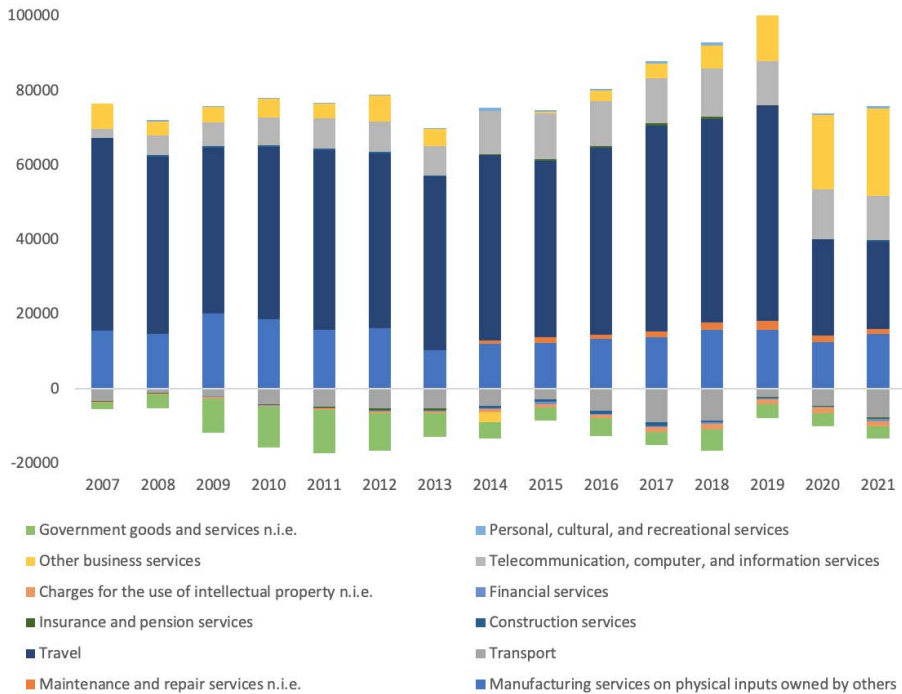
Note: The sample includes 129 countries. Morocco is the red triangle.

Source: UNCTADStat, World Development Indicators and authors' calculations.

Morocco is a net exporter of services, with a positive net balance of 6.2 billion in 2021 (down from 9.3 billion in 2019). Morocco's perennially positive trade balance in services has long been a growth engine for the economy, led by exports of travel, business, and ICT services (Figure 10), compensating for the country's

structural deficit on its merchandise account (Figure 11)⁷. Morocco's surplus on its services trade balance covered two-fifths of the country's merchandise trade deficit in recent years, a level that reached 49% in 2020. Figures for 2020 show that, owing to the significant contraction in services trade brought about by the COVID-19 pandemic, Morocco's trade surplus in services accounted for 43% of the country's narrowing merchandise trade deficit⁸.

Figure 10. Morocco: Services Trade Balance by Sector, 2007-2021
(million dirhams)

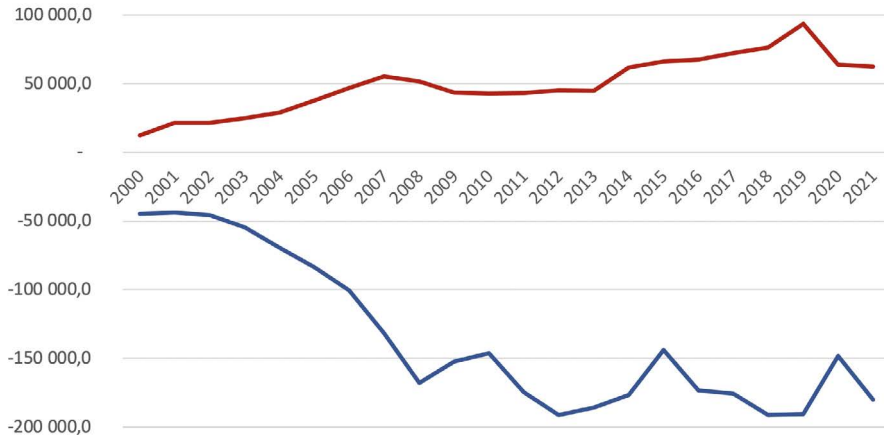


Source: IMF, Balance of Payments Statistics.

7. Morocco's trade surplus in services and its merchandise trade deficit are not entirely disconnected phenomena. Morocco's structural merchandise trade deficit can indeed be seen as partly reflecting its large tourism earnings, which, combined with equally significant income from worker remittances, tend to result in an appreciated real exchange rate.

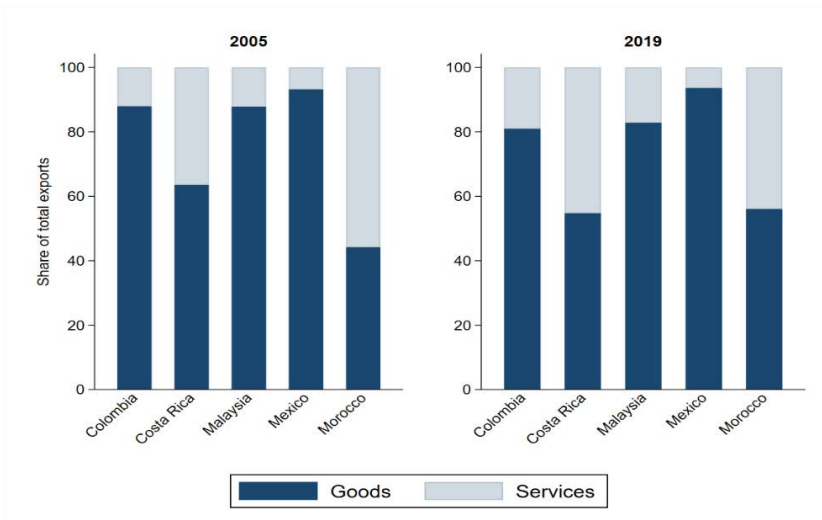
8. WTO (2021). Figures from the Office des Changes du Maroc point to a 23.1% reduction in Morocco's merchandise trade deficit in 2020, with imports contracting by twice the level of exports (14.1% vs 7.5%).

Figure 11. Morocco: Merchandise and Services Trade Balance, 2000-2021 (million dirhams)



Source : Office des Changes du Maroc.

Morocco's export basket is evenly diversified in terms of goods and services, relative to comparator countries, as steady gains have been registered in the relative share of services in total exports in recent years (Figure 12). Morocco's services trade also shows signs of increasing geographical diversification, notably in light of the strong growth of 'modern' service exports directed to African clients. Nevertheless, efforts at product diversification are needed to reduce the Kingdom's high dependence on the travel and tourism sector, which supplies more than half of services exports, and which experienced a sharp decline in the wake of pandemic-induced travel bans and lockdowns. Overall, Morocco shows a continued high level of dependence on more traditional services, such as travel and transportation (both maritime and air). Much scope exists to boost exports of modern services, including business, professional, and ICT-related services, areas in which Morocco has registered sustained gains in competitiveness and has gained larger market shares abroad through FDI outflows. As elsewhere, the COVID-19 pandemic has boosted Morocco's nascent e-commerce platforms and digital services exports (Daza Jaller et al, 2021), affording Morocco an opportunity to harness its sophisticated regulatory ecosystem and vibrant private sector. Morocco's ranks among the top two African suppliers of ICT and digitally deliverable services (UNCTAD, 2020).

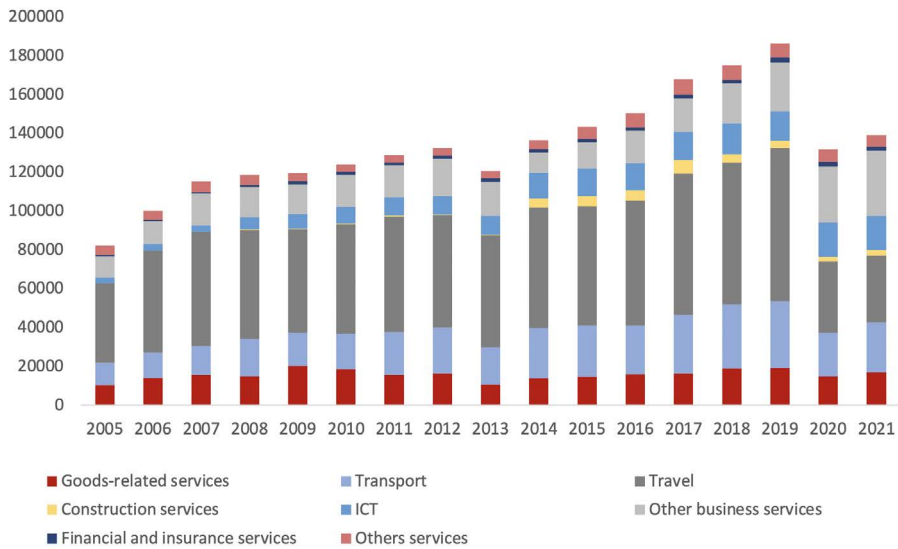
Figure 12. Export Basket of Selected Economies, 2005 and 2019

Note: BOP data in current US.

Source: World Bank, World Development Indicators.

Figure 13 captures the steady rise in Moroccan exports of ICT and other business services from 2005 to 2021. Because such data tracks cross-border transactions, rather than exports deriving from the operations of Moroccan service firms abroad, it does not capture the significant recent rise in Moroccan exports of financial services, both banking and insurance, and of other modern services delivered through an investment presence in neighboring African countries. Meanwhile, Morocco's services imports have continued to be dominated by transportation (particularly maritime shipping), travel, and other business services (Figure 14).

Figure 13. Morocco: Sectoral Composition of Services Exports, 2005-2021 (million dirhams)

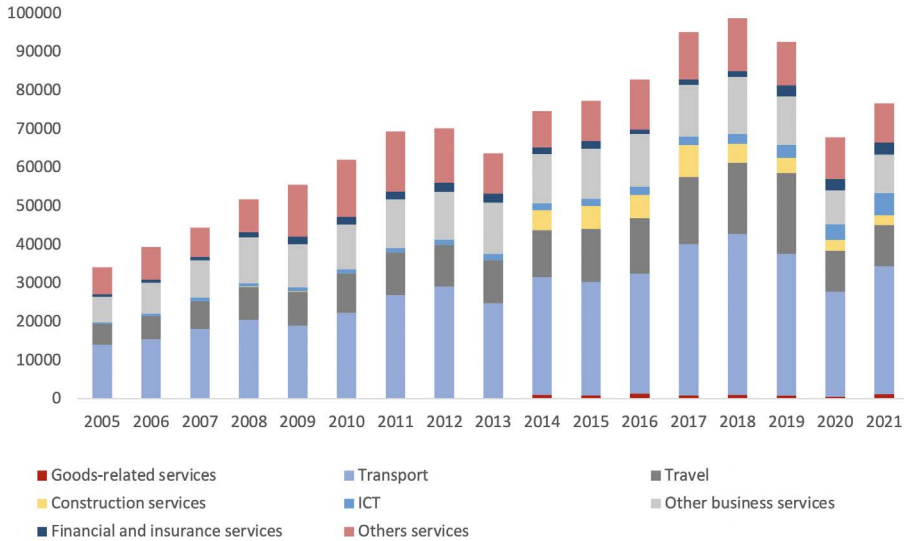


Source : IMF, Balance of Payments Statistics and author's calculations.

As for merchandise exports, the EU is the main destination of Morocco's services exports. Two-way trade in services between Morocco and the EU amounted to €10.7 billion in 2019, with Moroccan services exports representing €6 billion, equal to just under a third of the Kingdom's total exports of commercial services. Services imports from the EU amounted to €4.7 billion. Cross-border services exports to European Free Trade Association (EFTA) countries and to the United States are respectively the second and third leading export markets for Moroccan service providers. Services exports to partners of the Pan-Arab Free Trade Area (PAFTA) are also sizeable, while those to Turkey and the United Arab Emirates remain negligible. Overall, Moroccan services exports have been increasing for all trading partners and the rest of the world. While robust, Moroccan services trade with the U.S., the only partner with which Morocco has so far entered into a preferential trade agreement extending to services⁹, has not grown faster under the agreement relative to Morocco's services trade with other PTA partners.

9. The African Continental Free Trade Area (AfCFTA) represents the second PTA covering services to which Morocco is a signatory. While the AfCFTA's Protocol on Trade in Services was agreed recently, the process of negotiating market opening commitments in services, starting with five priority sectors—business, communication, financial, transport, and tourism services—is only now, at time of writing, getting underway.

Figure 14. Morocco: Sectoral Composition of Services Imports, 2005-2021 (million dirhams)



Source: IMF, Balance of Payments Statistics and author's calculations.

The EU is the main source of Moroccan services imports, supplying €4.7 billion worth of services in 2019. The U.S. is Morocco's third leading supplier of services, a not wholly surprising result given the predominant role of U.S. services firms in world trade. Imports of services from the U.S. have increased by 150% over the past decade, reaching 768 million at year-end 2019. Contrasting its positive services trade balance with the EU, Morocco is a (slight) net importer of services from the U.S., to the tune of 10 million in 2019. Moroccan services imports from its other PTA partners are negligible and lower than those from the rest of the world. Moroccan services imports have increased in recent years, with transportation and travel services leading the way, followed by a range of business services. Rising services imports indicate Morocco's increasing participation in cross-border production networks. They also reflect the high import content of recent developments in ports, road, rail, and air infrastructure.

Important steps are being taken by the Office des Changes du Maroc to provide a detailed breakdown of services trade by trading partner. Estimates of such trade are currently only available through recourse to mirror data from Morocco's leading trading partners. Similar efforts are needed for FDI data to ensure that Moroccan trade policy in services is more fully evidence-based

and granular in design. Efforts to capture bilateral services exports by partner country are especially important in Morocco's case, given that services account for almost half of the country's total trade.

b. Foreign Direct Investment in Services

While balance-of-payments (BOP) statistics measure trends in cross-border trade in services, they do not cover services trade that involves the supply of services by foreign-owned companies established abroad—so-called Mode 3 trade in services (or commercial presence). Trade in services is defined according to four modes of supply, some of which do not have a goods trade equivalent¹⁰. The WTO has produced a new dataset called TiSMoS (Trade in Services by Mode of Supply) that estimates trade in services by mode of supply from 2005 to 2017 for about 200 economies.

Using data for the four modes of supply suggests that global trade in commercial services accounted for 42.9% of world trade in goods and services at year-end 2017, amounting to 13.3 trillion in 2017, against world merchandise exports valued at 17.7 trillion the same year (WTO, 2018). Table 5 shows the relative importance of each the four modes of supply in world services trade. With a value of 7.8 trillion, sales through the establishment of foreign controlled affiliates worldwide (so-called 'Mode 3' trade) are by far the leading means of trading services globally, accounting for close to three-fifths of the total (58.9%)¹¹. Cross-border services transactions (Mode 1 trade), including through electronic means, accounted for 27.7% of the total. Meanwhile, the paltry share of services trade involving the temporary movement of service suppliers, estimated to account for just 2.9% of total services trade, reflects the onerous entry restrictions governing so-called 'Mode 4' trade, a factor that applies equally in Morocco (see the discussion in Section III below). Services exported through the movement of consumers abroad (so-called 'Mode 2' trade comprising tourism, the world economy's largest sector, and, increasingly, education and healthcare services) represented an estimated 10.5% of global services trade, a likely underestimate plagued by measurement difficulties.

10. There are many ways that services can be traded internationally, referred to as 'modes of supply'. The WTO General Agreement on Trade in Services (GATS) categorizes services trade according to four modes of supply: Cross-border supply (Mode 1), in which services are supplied from the territory of one member (i.e. WTO member) into the territory of any other member, such as through the internet; Consumption abroad (Mode 2), in which services are provided in the territory of one member to a consumer of any other member, such as tourism; Commercial presence (Mode 3), in which services are delivered by a supplier of one member through commercial presence in the territory of any other member, such as establishing a controlled affiliate in a foreign country to serve the local market; Presence of natural persons (Mode 4), in which a supplier of one member provides services through the presence of natural persons in the territory of another member, such as consultants.

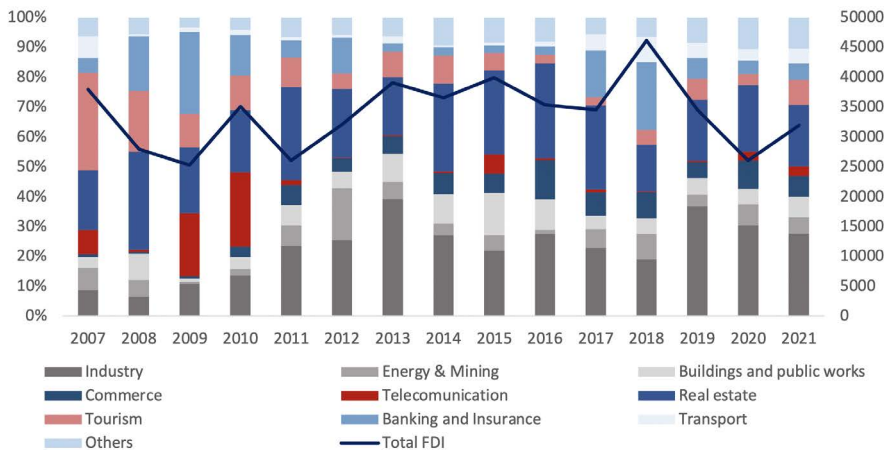
11. Financial services and distribution services together account for around half of this value.

Table 5. Share of World Services Trade by Mode of Supply, 2017

Mode of supplying services	Value (US trillion)	Share of total (%)
Cross-border trade (Mode 1)	3.7	27.7
Consumption abroad (Mode 2)	1.4	10.5
Commercial presence (Mode 3)	7.8	58.9
Movement of service suppliers (Mode 4)	0,4	2.9
Total	13.3	100.0

Source: WTO, World Trade Report 2019.

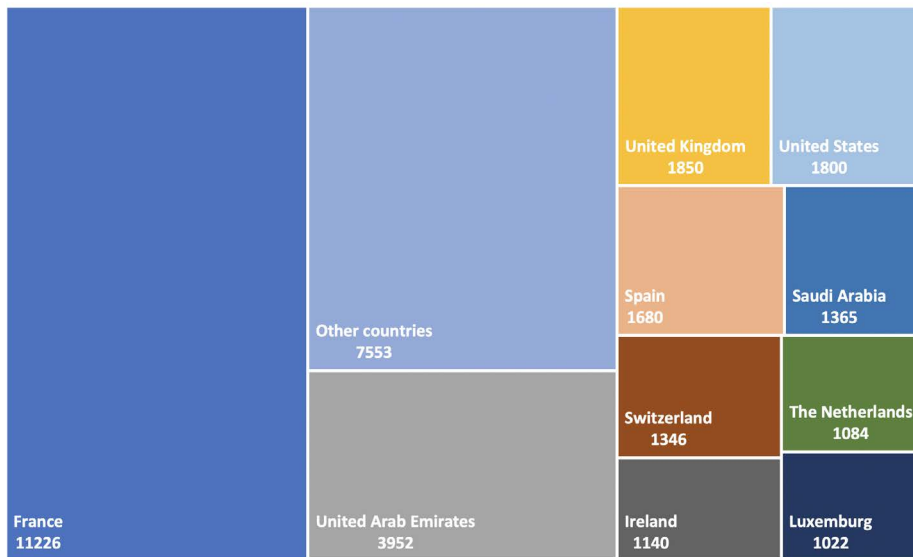
Figure 15 takes a sectoral look at trends in Moroccan FDI inflows since 2007. The data point to the rising importance of FDI inflows in services, particularly banking and insurance, retail trade, construction, tourism, telecommunications, and real-estate services. Services absorbed close to two-thirds (64%) of FDI inflows in 2019. While manufacturing continues to exhibit the highest share of FDI stocks in Morocco, the overall FDI trends run parallel to ongoing structural changes in the Moroccan economy and the country's increasing specialization in tertiary activities.

Figure 15. Morocco: Sectoral Composition of FDI Inflows, 2007-2021
(%, million dirhams)

Source : Office des Changes du Maroc.

FDI data in services broken down by source country is not available. However, the aggregate data from Figure 16 suggests that Morocco has attracted FDI from a large number of partners over the last decade. France accounts for a predominant share (33%), followed by the UAE (11.6%), the United Kingdom (5.4%), the U.S. (5.3%), Spain (4.9%), and Saudi Arabia (4%).

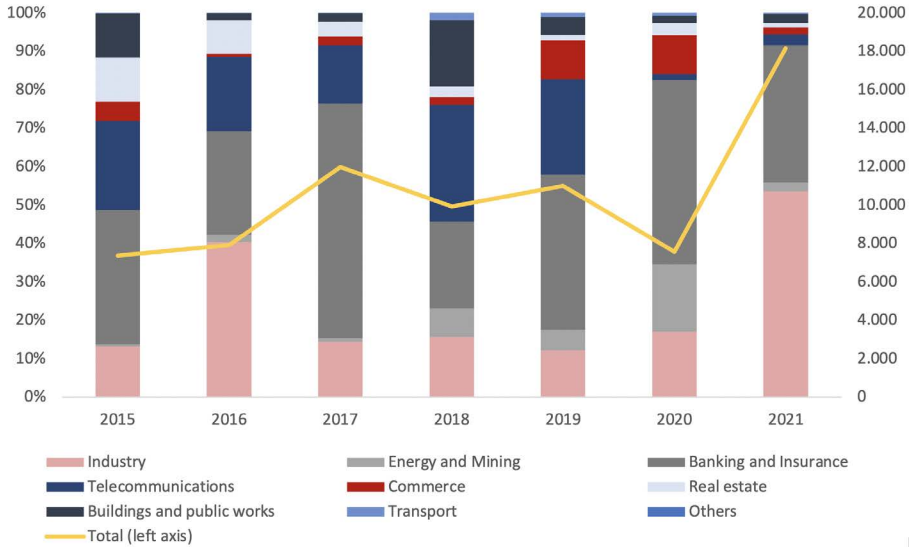
Figure 16. Morocco: FDI Inflows from Leading Source Countries, 2009-2021 (million dirhams)



Source: Office des Changes du Maroc.

Morocco's integration strategy has in recent years focused on strengthening the country's ties with African neighbors, culminating most recently with the leadership role Morocco assumed in helping establish the African Continental Free Trade Area (AfCFTA). The strategy is seen in a marked increase in outward FDI (OFDI), in which services are predominant (Figure 17), especially financial services (banking and insurance), ICT/telecoms, and retail trade, the bulk of which has been directed to African partner countries. The bulk (85%) of Moroccan firms' OFDI is estimated to have been directed towards sub-Saharan Africa in recent years, placing Morocco second behind South Africa on the continent. A rising share of Moroccan FDI outflows have been invested in the ECOWAS region, a regional grouping Morocco has signaled a willingness to join as a full member. Moroccan wealth is boosted by the steady stream of repatriated profits generated by Morocco's growing OFDI portfolio in services.

Figure 17. Morocco: Outward Foreign Direct Investment (OFDI) Flows, 2015-2021 (% , million dirhams)



Source : Office des Changes du Maroc.

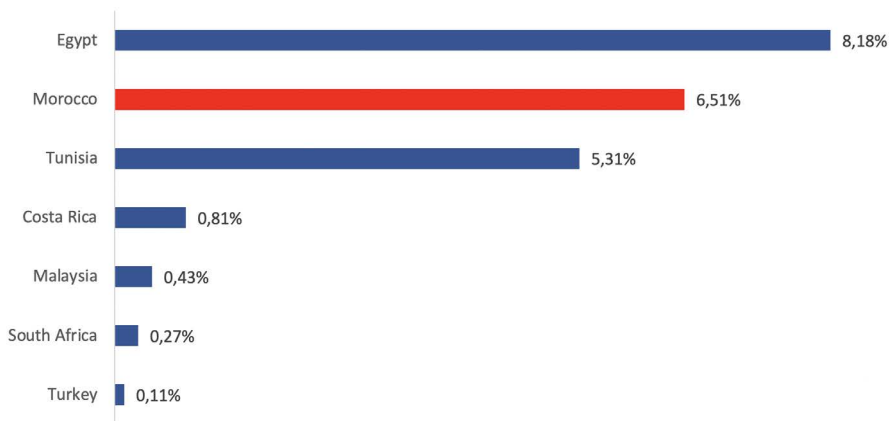
c. Remittances

Beyond the financial transfers emanating from the large Moroccan diaspora communities in a number of countries, particularly the near abroad of Spain and France, remittances (especially from lower-skilled seasonal agricultural workers) have long been a significant source of external finance for the Kingdom. Inflows of migrant and temporary worker remittances, which account for an estimated 6.5% of Moroccan GDP, provide a further important offset to the country's merchandise trade imbalance (Figure 18). Inflows from three EU countries—France, Spain, and Italy—contribute on their own three-fifths of the total, followed by the Gulf region as the second leading source of remittance flows (Figure 19). Data from the Office des Changes du Maroc document the resilience of remittance flows during the COVID-19 pandemic, with recorded remittances reaching 5.52 billion during the first three quarters of 2020, a 2% increase over levels attained in 2019.

Remittances do not relate solely to transfers associated with the temporary movement of service suppliers covered by trade agreements. However, the sheer magnitude of Moroccan remittance inflows draws attention to the importance

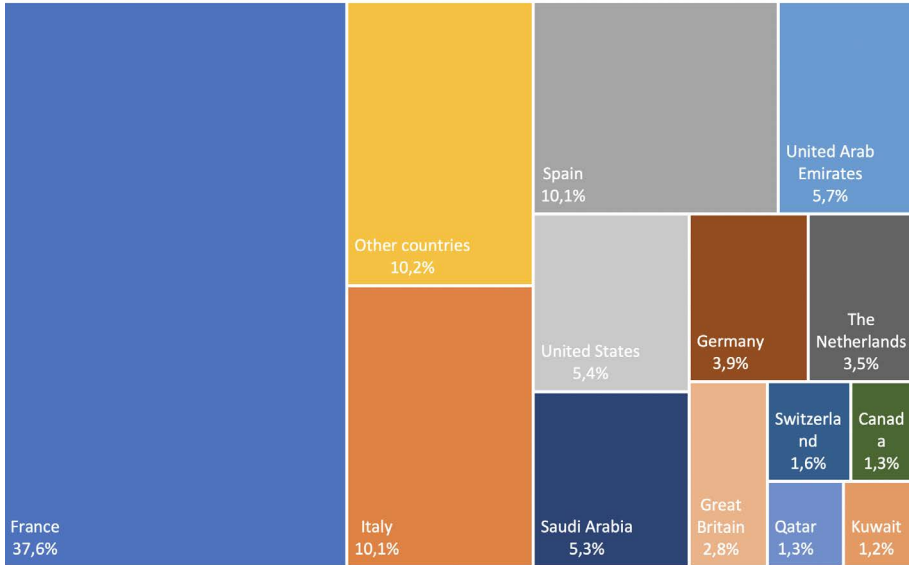
of securing greater benefits from labor-mobility provisions that need to be anchored in Morocco's trade agreements, and pursued more ambitiously in its instruments of bilateral migration governance. The revival of discussions on a deeper and more comprehensive trade agreement with the European Union is of paramount importance in this regard, notably in terms of opening up expanded export opportunities for the temporary mobility of more highly skilled Moroccan service suppliers. Opportunities for high-skilled labor movement in a range of professional services also appear promising in the Gulf region, notably in Saudi Arabia, given ongoing efforts at diversification away from hydrocarbons and towards services including tourism, ICT, finance, and professional services, in which Moroccan firms have a strong track record.

Figure 18. Share of Worker Remittances in GDP, Selected Economies, 2020 (%)



Source: World Bank, Migration and Remittances Data.

Figure 19. Morocco: Leading Source Countries of Worker Remittances, Average 2007-2020, % of Total Remittances



Source : Office des Changes du Maroc.

Revealed Comparative Advantage in Services

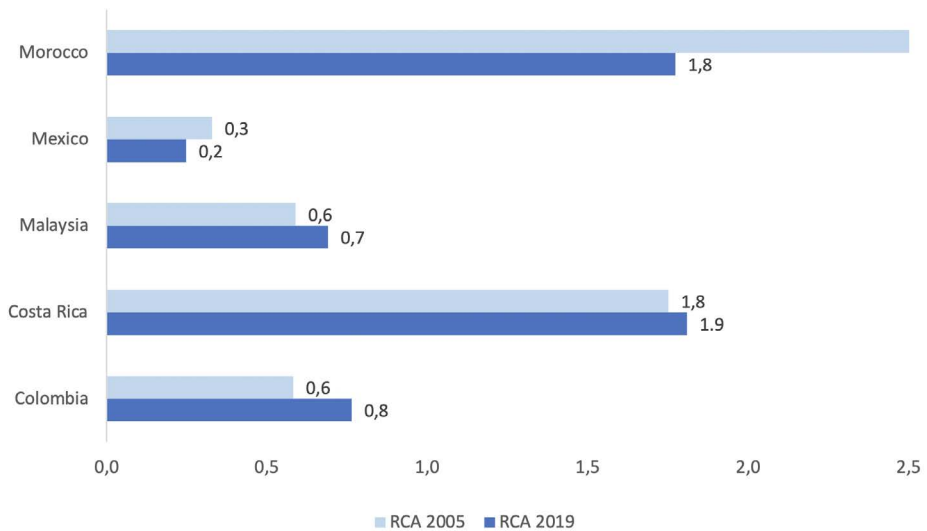
Morocco's RCA¹² in services ranks among the highest within a group of comparator countries, but has declined at a faster pace than those of its peers in recent years. While Morocco remains well positioned relative to its peers, its RCA in services deteriorated from 2.7 in 2005 to 1.8 in 2019, a period during which all comparator countries other than Mexico registered RCA gains (Figure 20).

12. The concept of revealed comparative advantage is an index used in international economics for calculating the relative advantage or disadvantage of a certain country in a certain class of goods or services as evidenced by trade flows. It most commonly refers to an index, called the Balassa index, introduced by Balassa (1965). The RCA is equal to the proportion of a country's exports that are of the class under consideration divided by the proportion of world exports that are of that class of goods or services. A comparative advantage is 'revealed' if the RCA index exceeds unity (>1). If an RCA is less than unity, the country is said to have a comparative disadvantage in the commodity or industry. The RCA index for a country *i* in sector *j* is calculated as follows:

$$RCA_{i,j} = \frac{x_{i,j}/X_i}{\bar{x}_{w,j}/X_w}$$

Where: $x_{i,j}$ ($x_{w,j}$) is the country *i* (world) exports of product *j*; X_i (X_w) is the country *i* (world) total exports.

If $RCA_{i,j} > 1$ the country *i* has a RCA in the product *j*. if $RCA_{i,j} < 1$, the country *i* has a revealed comparative disadvantage in product *j*.

Figure 20. RCA in Services, Selected Economies, 2005 and 2019

Source: Authors' calculations based on UNCTADStat.

Table 6, which documents the share of total services exports, RCA, and the compound annual growth rate (CAGR) for each services category, shows that Morocco has an RCA in goods-related services, travel, transport, and construction services. Morocco's comparative advantage in transport services is underpinned by its extensive road and rail networks, a leading port (Tanger-Med), and an air transportation ecosystem that connects Morocco to a large network of regional partners for both tourism and business purposes. Moroccan services exports registered an average growth rate of 2.2% between 2008 and 2019. Among the services for which Morocco is seen to possess an RCA, construction (fueled by a domestic real estate and infrastructure boom) and transportation registered the highest average annual growth rates over the period, of 17.8% and 3.5% respectively. Travel and goods-related services, on the other hand, had lower growth rates, and have both been strongly impacted by the COVID-19 pandemic. While the rebound in merchandise trade, and Morocco's continued insertion into manufacturing value chains, generally bode well for resumed export growth of goods-related services, greater uncertainty prevails about the pace and extent of recovery in international passenger and business travel.

The ICT sector expanded significantly over the last decade, improving its RCA (which is still however below 1.0), and increasing its share of total exports from 5.1% to 8.2%. The fact that Morocco's RCAs in ICT and financial services are low needs to be interpreted carefully to the extent that a significant share of Moroccan exports occurs not through the traditional cross-border means that RCA measures, but rather through the establishment of Moroccan operators in foreign markets via FDI (so-called Mode 3 trade). Similar considerations likely apply to Moroccan exports of professional and business services, many of which require close proximity between service providers and end-consumers, prompting recourse to establishment-based trade (Mode 3 services trade).

Table 6. Changes in Morocco's Share of Exports and RCA in Services

Sectors	2008			2019			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Value	% of total	RCA	Value	% of total	RCA	CAGR (%)
Goods-related services	1,902.1	12.4%	3.82	1,959.4	10.1%	2.63	0.3%
Transport	2,508.3	16.4%	0.74	3,670.2	18.9%	1.13	3.5%
Travel	7,220.9	47.2%	1.99	8,187.1	42.3%	1.80	1.1%
Construction	61.1	0.4%	0.17	371.9	1.9%	1.03	17.8%
Insurance and pension services	112.3	0.7%	0.29	94.7	0.5%	0.22	-1.5%
Financial services	40.2	0.3%	0.03	94.3	0.5%	0.06	8.1%
Charges for the use of intellectual property	0.1	0.0%	0.00	12.1	0.1%	0.01	51.0%
ICT	787.9	5.1%	0.66	1,587.2	8.2%	0.74	6.6%
Other business services	1,999.0	13.1%	0.65	2,622.9	13.5%	0.59	2.5%
Personal, cultural, and recreational services	93.0	0.6%	0.52	113.4	0.6%	0.44	1.8%
Government goods and services n.i.e.	576.7	3.8%	2.20	657.2	3.4%	2.66	1.2%
Total	15,301.7	100.0%		19,370.4	100.0%		2.2%

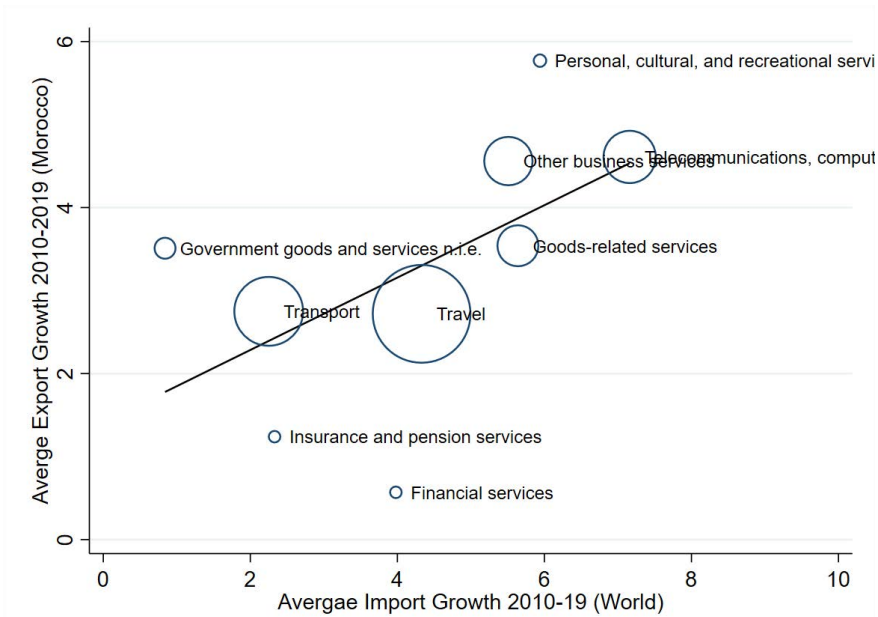
Source: UNCTADStat and authors' calculations.

Figure 21 shows that in the last decade Morocco has lost world market share in the travel sector—its leading source of foreign exchange earnings in services—having failed to outpace global demand in the highly competitive tourism sector. A similar trend has been observed for goods-related services and for banking and insurance services¹³. Such results, which point to untapped opportunities for the further expansion of Morocco's services exports, highlight the need to boost the competitiveness of sectors on which the Kingdom relies heavily for its export earnings. They are also a reminder of Morocco's need to

13. The trends observed for exports of banking and financial services, both of which are measured here on a cross-border basis (i.e. Mode 1 trade in services) need to be interpreted with care because Moroccan financial sector exports, principally directed towards regional markets in West Africa, have occurred through the established presence of Moroccan financial institutions in these markets (so-called Mode 3 trade), rather than through cross-border transactions.

diversify its services export basket, a process that appears underway in the more traditional area of transport services, and in a host of modern services comprising telecommunications/ICT, recreational, and 'other' business services.

Figure 21. Morocco: World Market Share of Selected Services Exports, 2010-19



Note: The size of each bubble represents the average export value between 2010 and 2019.

Source: UNCTADStat and author's calculations.

d. The Role of Services in Export Value Added and Value-Chain Insertion

Services are key enablers of cross-border production networks, often called global (or regional) value chains, providing the 'glue' that connects fragmented and dispersed production stages that characterize value chains (Díaz-Mora et al, 2018). The feasibility of international production networks, and their recent rapid growth, are in large measure conditioned on the efficient supply of a bundle of services, such as transport, logistics, communication, and financial services, and by a wide array of business and professional services, supply of which increasingly crosses borders (Low and Pasadilla, 2015; World Bank, 2020).

Measuring trade in value-added rather than in gross terms (as is the case with balance-of-payments data) sheds important light on the true contribution of services to world trade. Such a focus notably illustrates the crucial intermediary function that services play, and the fact that services are exported indirectly when embedded as inputs in merchandise exports (Box 1).

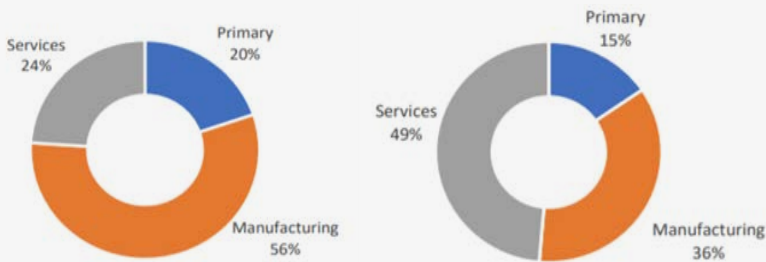
Box 1. Measuring Services Trade on a Value-added Basis

The OECD's trade in value added (TiVA) statistics measure the contribution of services and services trade to manufacturing activities and exports, and to merchandise exports more generally. When trade is measured in value-added terms, services are seen to account for 49% of world trade, compared to 15% for the primary sector, and 36% for manufacturing (Box Figure 1)¹⁴.

Services' share of world exports in value-added terms has increased by two-thirds since 1980, providing evidence of marked changes in the composition of trade towards more knowledge-intensive activities and the rapid rise in FDI-driven GVC trade (Heuser and Mattoo, 2017). The resulting 'servicification' of manufacturing reflects the increasing reliance of manufacturing companies on service inputs procured from domestic and foreign sources, and often supplied in-house (e.g. transport, research and development, repair and maintenance, information technology, professional services, and after-sales services).

Box Figure 1. Structure of World Trade in Gross and Value-Added Terms, 2016

a) In gross terms b) In value added terms



Source: Computed from OECD, Trade in Value Added database and WTO Statistics Database.

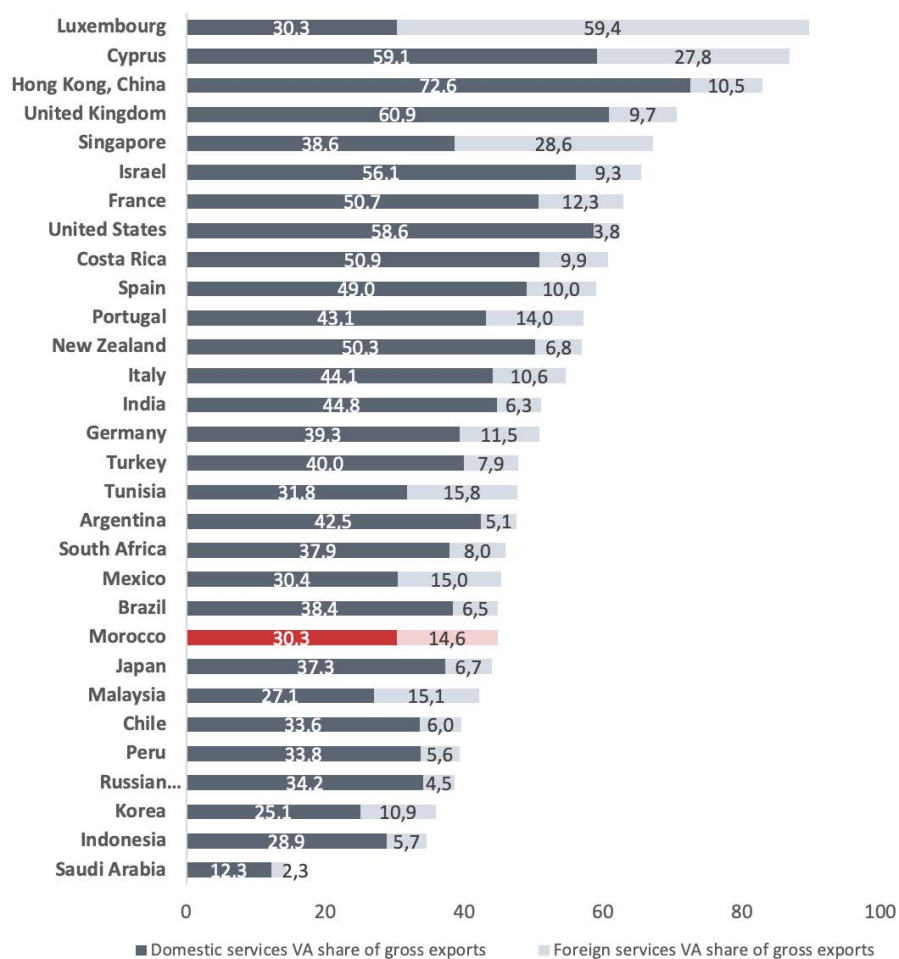
14. The most recent update of TiVA statistics at time of writing was released in December 2018, with coverage up to 2016.

Morocco has not been immune from the forces reshaping the structure of world trade, with services value-added accounting for 48% of the Kingdom's exports in 2016, a fifth higher than their share in gross exports. While Morocco's performance exceeds that of non-OECD economies, where the services value-added share is estimated to average 40%, it is lower than the OECD average of 56%.

Data from the OECD's TiVA database reproduced in Figure 22 show that the services content of Moroccan exports is mainly domestic as opposed to foreign in nature. The average share of domestic services value added in gross exports, between 2005 and 2018, accounted for 33.1%, while foreign services represented only 12.6%. Such developments underline the useful linkages, between services and manufacturing, and between lead (often foreign invested) producers and domestic SMEs, that flow from the growing participation of Moroccan firms in cross-border value chains. However, as Figure 23 shows, servicification levels in the majority of Morocco's industry groups remain below those observed in advanced industrial countries in a majority of sectors, despite convergent trends in others¹⁵. Such trends are a reminder of the powerful economy-wide and trade impacts likely to result from sustained improvements in the performance of the service sector, as pointed out in the industrial policy and agricultural trade in this volume. They also highlight the need for targeted support measures to be directed to boosting the competitiveness of domestic services suppliers, a majority of which are SMEs, as well as the likely benefits for GVC upgrading of attracting more FDI in modern services.

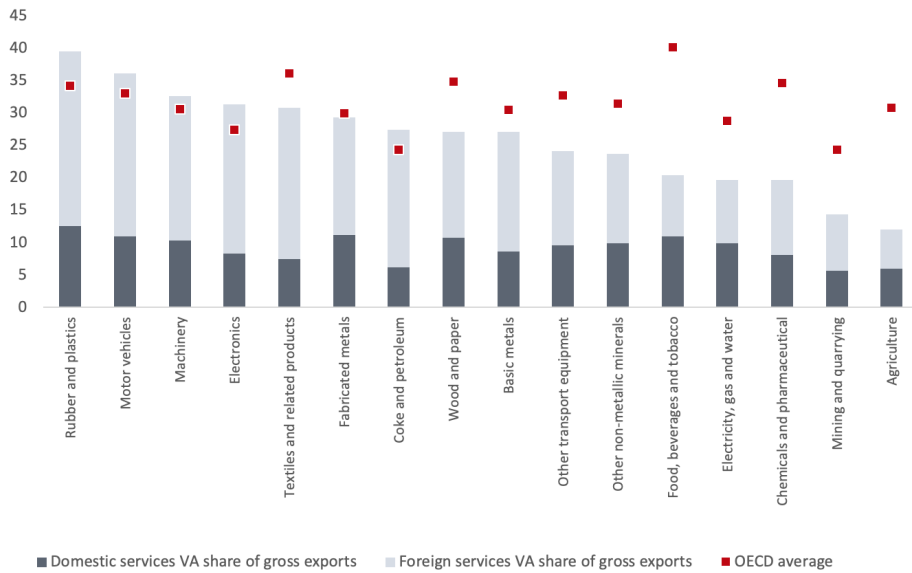
15. 2018 TiVA data from the OECD show that the share of services in Moroccan gross exports exceeded that of advanced economies in five sectors: rubber and plastics, motor vehicles, machinery, electronics, and coke and petroleum products.

**Figure 22. Services Content of Gross Exports, Selected Economies
(% of total gross exports, 2018)**



Source: OECD (2021).

**Figure 23. Services Content of Morocco's Gross Exports, by Sector
(% of Total Gross Exports, 2018)**



Source: OECD (2021).

e. On the Rise: Digitally Enabling and Enabled Services

Services are central to digital trade. They provide the basic enabling infrastructure for digital transactions and also a growing share of services can today be supplied online, a trend given a major boost by the digitization imperative flowing from the COVID-19 pandemic. Sectors including telecommunications and computer services, in particular, but also financial, distribution, delivery and logistics services, are key enablers of e-commerce in goods (including goods that can increasingly be digitized and supplied across borders; 3D printing for instance) and also of services supplied online. Technological developments, such as the growth of broadband networks, particularly mobile broadband, have improved the quality and capacity of these services and have contributed to a significant reduction of trade costs, making it easier to connect producers, sellers, and consumers across borders.

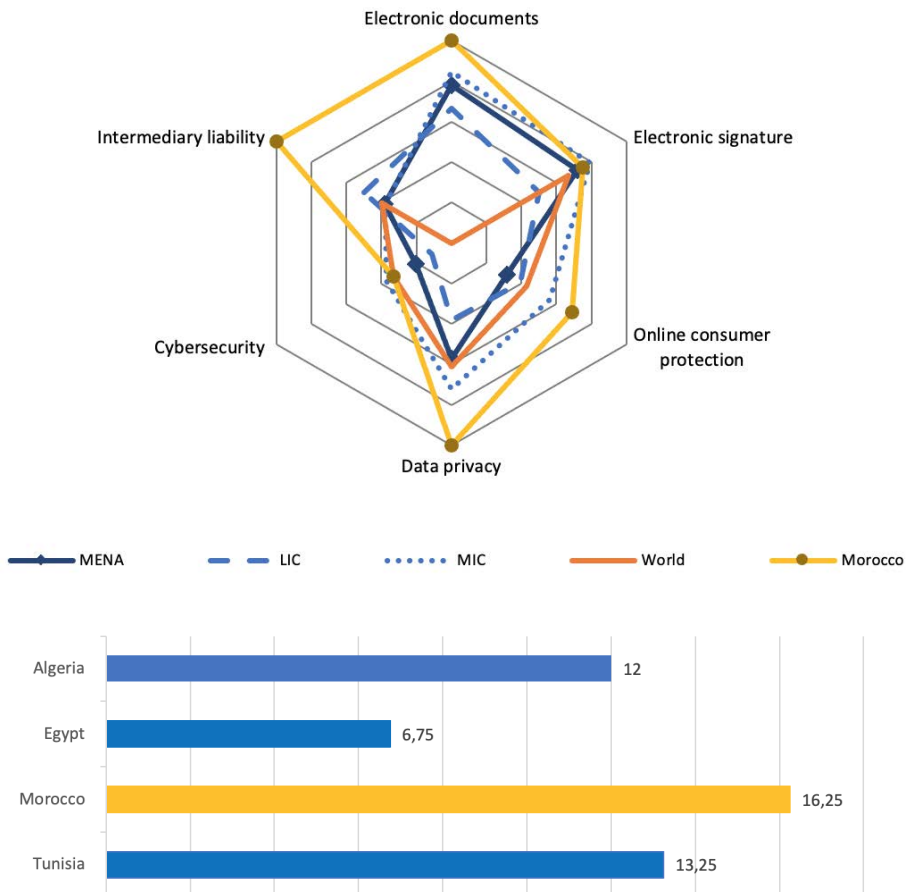
Retail and wholesale trade are also key backbones of the digital economy, as shown by the strong growth of retail and wholesale services of goods purchased online, and facilitated by the increased capacity and speed—and the lower costs—flowing from improvements in telecommunication and computer services, as well

as by greater competition, foreign investment, and an enabling environment in the distribution services sector. In turn, such growth relies on efficient financial services, in particular payment solutions using internet and mobile applications, which have proved key to the growth of e-commerce (Marchetti, 2018). Work by the World Bank Group and the World Trade Organization has emphasized how the digital economy can be an important source of inclusiveness, first by offering significant opportunities for SMEs, an above-average share of which tend to be led by female entrepreneurs, to engage in cross-border trade, and second by lessening a number of gender biases present in traditional, face-to-face transactions (WBG and WTO, 2020).

The chapter by Daza Jaller, Molinuevo and Sauvé in this volume documents the strong growth potential of digital trade in Morocco. Anchored in the country's sophisticated digital regulatory ecosystem (Figure 24), Morocco has advanced substantially in recent years in the development of an export-driven digital services sector oriented towards higher value-adding business and IT outsourcing services.

Morocco leads ICT and digitally deliverable services exports in Africa, and its IT-enabled services exports account for one fourth of the Kingdom's total services exports. Morocco's digital-services sector can thus serve as a force to encourage Moroccan diplomacy into expanding business opportunities in foreign markets, and can help the country play a lead role in the adoption of an enabling digital-governance framework across the region and continent. Morocco's decision not to participate formally in Joint Statement Initiative negotiations on e-commerce at the WTO appears somewhat paradoxical in light of the strong recent trajectory of Moroccan exports of digital products and the advanced state of its domestic digital governance norms. Scaling-up Morocco's ICT export performance requires continued efforts to supply the labor market with enough knowledge workers with high digital literacy levels. Morocco currently lacks the skills required to take full advantage of the digital tools at its disposal. Inadequate levels of digital literacy and ICT skills hinder the participation of women in the digital economy. While common to many economies, both challenges call for targeted policy responses in a country characterized by persistently high levels of youth unemployment and underemployment, including among the country's more educated young people.

Figure 24. Digital Regulatory Readiness Performance, Morocco and Regional Peers, 2019



Source: Daza Jaller et al (2022).

Note: A score of 20 indicates the existence of disciplines in all 37 regulatory variables deemed relevant to digital trade.

f. Logistics Performance

Services play a key role in trade integration and diversification as enablers of merchandise trade, providing the basic infrastructure on which trade in goods relies. Without an efficient logistics ecosystem, agricultural produce, primary commodities, and manufactured goods cannot be traded successfully, as a diversity of services is needed to bring final goods from their production site

to consumers across borders. These include, most obviously, maritime transport (e.g. freight, port services), road transport, air transport (e.g. freight, airports), logistics services (e.g. freight forwarders, customs brokers, storage, warehousing), express delivery services, and distribution services (wholesale and retail). The better the performance of these services, the more trade in goods is facilitated, especially as rapid-delivery capacity is needed to respond to shifts in demand (notably in ready-made garments), and to conform with 'just-in-time' inventory systems requiring high degrees of reliability. A country's logistical performance is thus a critical metric of overall trade performance, pointing to the importance, including in terms of country-wide advances in spatial equity and inclusiveness, of registering steady gains in logistical efficiency.

Survey results produced by the World Bank Group's domestic Logistics Performance Index (dLPI), which tracks the logistics environment as seen by in-country logistics professionals, but for which no country rankings are produced, point to sustained improvements in the quality of Morocco's logistics services environment, with close to nine out of ten domestic respondents reporting improvements since 2015, though improvement has been limited in logistics-related regulatory requirements and the incidence of requests for illicit payments (Table 7).

Table 7. Morocco: Changes in the Logistics Environment since 2015

Since 2015, have the following factors improved or worsened in your country of work	% of respondents answering improved or much improved
Customs clearance procedures	90%
Other official clearance procedures	75%
Trade and transport infrastructure	90%
Telecommunications and IT infrastructure	90%
Private logistics services	85%
Regulation related to logistics	70%
Solicitation of informal payments	68%

Source: World Bank, Logistics Performance Index 2019.

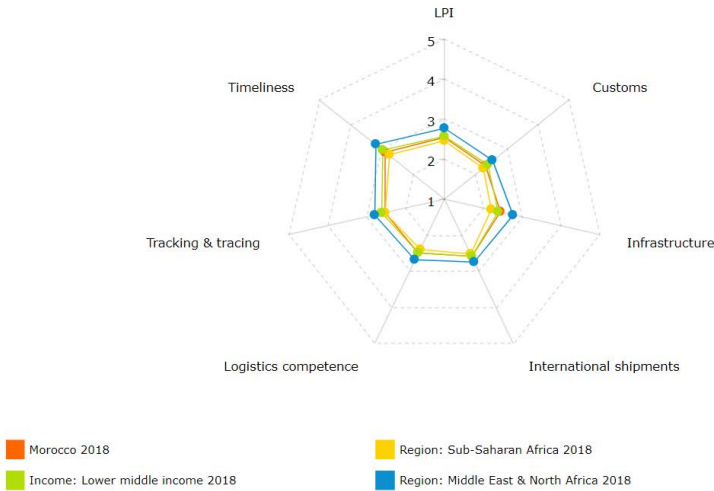
Morocco's improved logistics performance cannot be divorced from the sustained levels of public investment directed to—and the significant improvements made in—the country's connectivity-enhancing infrastructure over the past decade, notably the cluster of shipping-related activities found at the country's main trade gateway at the Tanger Med port. Morocco's progress also reflects the Kingdom's strong compliance record under the WTO's Trade Facilitation Agreement. Morocco already complied with 30 of the agreement's 36 implementation measures on the Agreement's entry into force in late 2014¹⁶.

Despite these achievements, Morocco's logistics performance suffers from adverse perceptions on the part of its trading partners, as indicated by the country's poor standing—109 among 160 economies surveyed—in the international component of the World Bank Group's 2019 Logistics Performance Index (iLPI). Morocco suffers from poor perception across all iLPI index metrics, with the lowest score attributed to the performance of the country's customs-related agencies. While Morocco's iLPI score does not differ markedly from the generally weak average performance of countries in its income group and its African periphery, its performance is considered well below that prevailing within the MENA region, and is far from frontier performers within the lower middle-income group (Vietnam), MENA (United Arab Emirates), and Africa (South Africa; Figures 25 and 26).

A further area of concern affecting Morocco's logistics performance is the high degree of informality—and concomitant paucity of competitiveness-boosting private investment—prevailing in Morocco's road-transport sector. This may be especially prejudicial to the transport of perishable agricultural commodities that rank highly in Morocco's export basket. The COVID-19 pandemic revealed structural shortcomings in Morocco's road transport sector, which is composed chiefly of small and even micro-enterprises, 86% of which generate revenues not exceeding 3 million dirhams per year. One measure of the sector's informal nature can be seen from the fact that only 29% of commercial vehicles are reported in the national register of transporters. Moreover, four in five Moroccan truck drivers could not benefit from the aid measures granted by the government during the first three months of the pandemic because they were not formally affiliated to the National Social Security Fund. Looking ahead, Morocco's transport sector—maritime and road—can expect rising pressures to comply with more stringent environmental standards, notably within the EU market in the wake of assertive demands for greener trade practices.

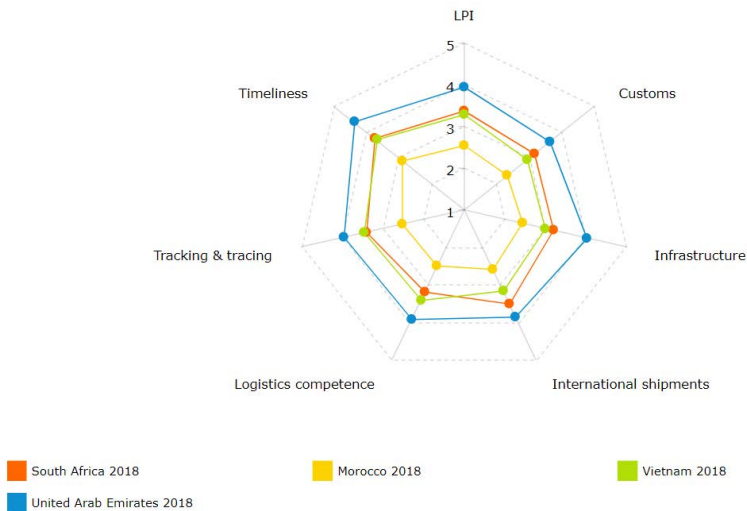
16. The WTO's TFA database reports that Morocco has delayed the implementation of one category B measure dealing with pre-shipment inspection, and five category C measures dealing respectively with notifications for enhanced controls or inspections; pre-arrival processing; risk management; perishable goods; and single window. See <https://tfadatabase.org/members/morocco/breakdown-by-measure>.

Figure 25. Logistics Performance Index (intl.): Morocco, Regional and Income Group Peers, 2018¹⁷



Source: World Bank, Logistics Performance Index 2019.

Figure 26. Logistics Performance Index (intl.): Morocco and Top Regional and Income Group Performers, 2018



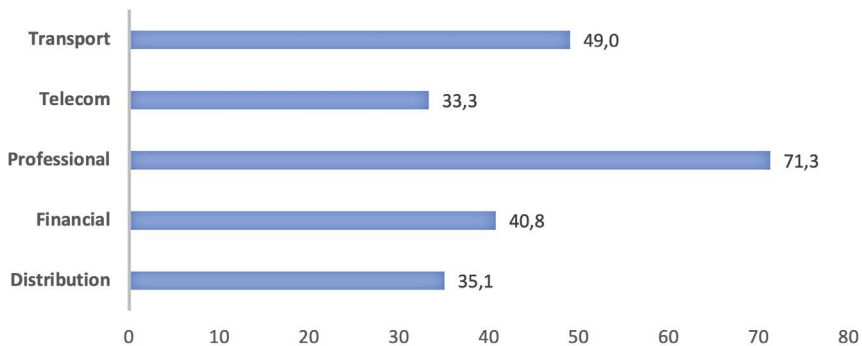
Source: World Bank, Logistics Performance Index 2019.

17. Under the World Bank Group classification system, Morocco is categorized as a lower middle-income country.

g. Applied Regulatory Measures in Services

In line with its overall trade policy stance, and relative to its peers in Africa and (especially) the MENA region, Morocco maintains a relatively open trade regime in services. Recently updated data under the World Bank's Services Trade Restrictiveness Index (STRI), which measures the restrictive nature of applied regulatory measures across five broad sectors, twenty-three sub-sectors, and three modes of supplying services (Modes 1, 3 and 4), shows that Morocco's regulatory ecosystem for services is most open for telecommunications and distribution services, for both of which the STRI hovers in the low to mid-30s range (on a restrictiveness scale of 0 (fully open) to 100 (fully closed); Figure 28). Morocco's policy stance is more restrictive in financial (40.8) and transport services (49.0). Like virtually all countries, not least in light of the higher incidence of measures restricting the cross-border mobility of service providers, and of restrictions placed on the scope of operation of established foreign suppliers, Morocco's policy stance is most competition-impairing for professional services including legal, accountancy, and auditing services (71.3).

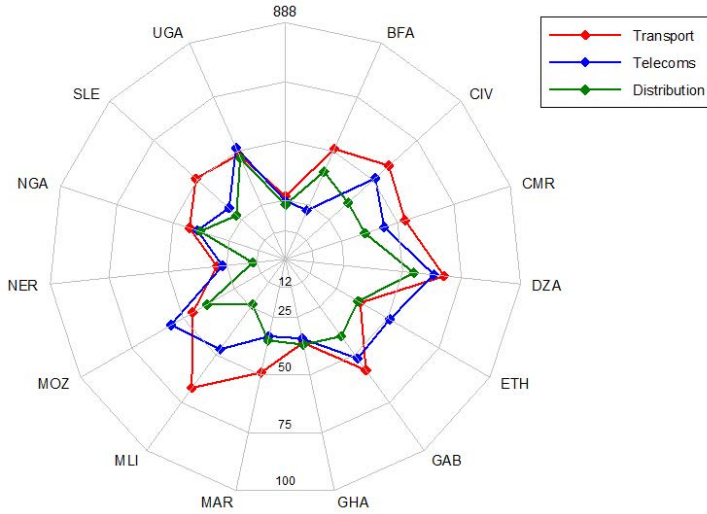
Figure 28. Morocco: Services Trade Restrictive Index, Key Sectors, All Modes, 2020



Source: World Bank, Services Trade Restrictiveness Index.

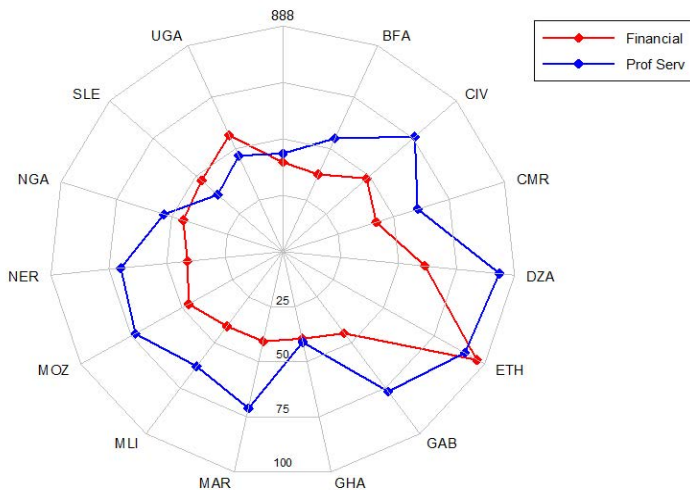
Figures 29 and 30 show that Morocco's applied measures in services are broadly aligned to those of a host of regional (African) peers in the areas of transportation and professional services, which are generally the two most restrictive sectors. While the Kingdom's policy stance tends towards a lesser degree of restrictiveness in the areas of telecommunications, financial, and distribution services, its performance does not differ markedly from that of neighboring countries.

Figure 29. Morocco (MAR) and its Peers: STRI in Distribution, Transportation and Telecommunications Services, All Modes, 2020



Source: World Bank, Services Trade Restrictiveness Index. Note: Data for '888' relates to the STRI performance of Kosovo.

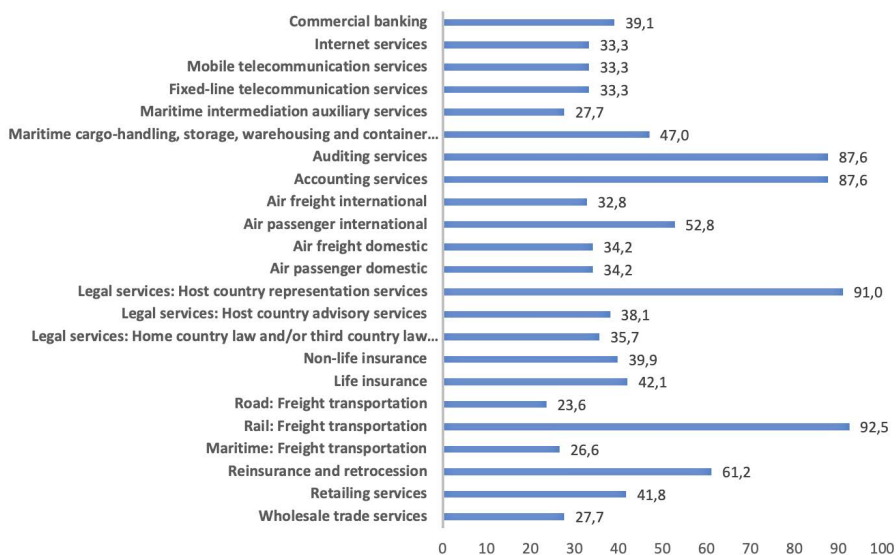
Figure 30. Morocco (MAR) and its Peers: STRI in Financial and Professional Services, All Modes, 2020



Source: World Bank, Services Trade Restrictiveness Index. Note: Data for '888' relates to the STRI performance of Kosovo.

Figure 31, which shows trade-restrictiveness levels broken down along sub-sectoral lines, shows that of the 23 sub-sectors for which 2020 STRI data is available, four show STRI levels at or below the 30 mark, indicative of a relatively high level of domestic market contestability¹⁸. Morocco's applied services regime is moderately restrictive (30 to 50 STRI score) for most sub-sectors, ten of which show STRI scores lower than 40. Meanwhile, the most restrictive segments of Morocco's service economy (STRI > 50) can be found in a host of professional services (accounting, auditing, and legal services) and in rail transportation (freight) and insurance services (reinsurance and retrocession services). Of the seven sub-sectors in which Morocco maintains a fully closed market, five prohibit cross-border transactions (in rail transportation (freight), commercial banking, life insurance, accounting, and auditing services), while two prevent foreign firms from serving Moroccan clients through a commercial presence in the Kingdom (host country legal advisory and representation services).

Figure 31. Morocco: Services Trade Restrictive Index by Sub-Sector, All Modes, 2020



Source: World Bank, Services Trade Restrictiveness Index.

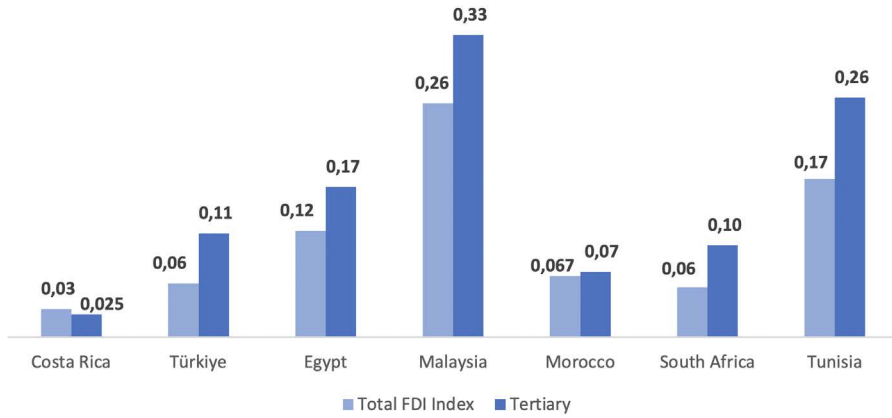
18. These concern freight transportation by road and maritime transport, wholesale trade, and auxiliary maritime transport services.

The figures in Annex 1 allow for a finer appreciation of applied service-sector regulations in Morocco, compared to a sample of mostly regional peers, disaggregating latest STRI scores across sectors and modes of supply where information is available. Among the most salient trends are Morocco's far more restrictive stance towards cross-border trade in financial services—both banking and insurance services—compared to trade conducted through an established presence and more likely subject to host country supervision (Figures A1.1 and A1.2). Such a policy bias translates into entry and admission requirements limited to locally incorporated firms (e.g. subsidiarization as opposed to direct branching), a competition-impairing restriction found in a number of other sectors in Morocco.

Morocco's trade policy stance towards regulated professions shows marked contrasts, both domestically and relative to African partners, with prohibitively high barriers to entry and operation maintained in accountancy and auditing services, for which cross-border supply is prohibited and commercial presence is subject to stringent entry restrictions. Accountancy and auditing are also sectors in which restrictions on labor movement (Mode 4) are particularly high (Figures A1.3 and A1.4). The STRI data for legal advisory services shows that while foreign firms can establish a foothold in Morocco under moderately open conditions, restrictions governing the temporary entry of foreign lawyers are far more onerous (Figure A1.5). Morocco's entry and operation requirements for foreign-established providers of mobile telephony services are broadly similar to conditions prevailing elsewhere in Africa. The strong regional presence of Moroccan telecoms operators may result in demands for a loosening of Mode 3 restrictions in the Moroccan market in the context of market access talks under the AfCFTA (Figure A1.6). Meanwhile, Figure A1.7 confirms Morocco's relatively open policy regime for maritime cargo-handling services.

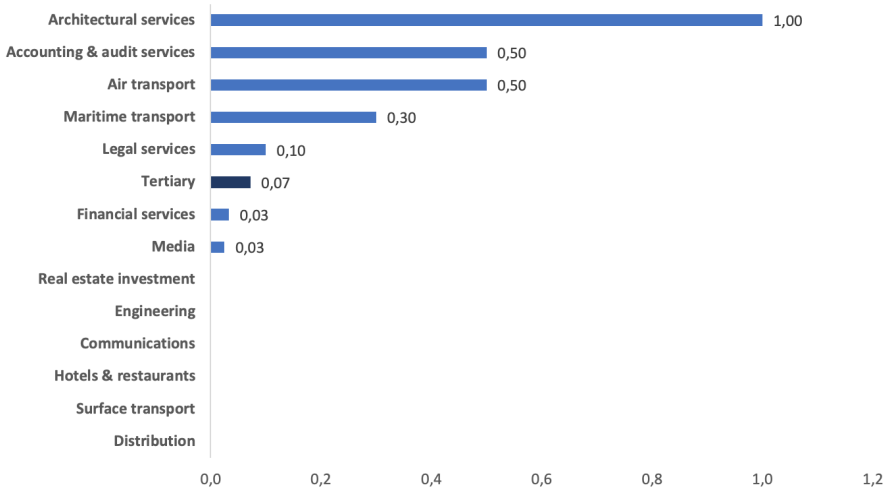
Figure 32 situates Morocco's policy restrictiveness to foreign direct investment, including in services (tertiary activities), relative to a global sample of peers. Data from the OECD's FDI Regulatory Restrictiveness Index reveal Morocco's welcoming policy stance towards foreign entry and ownership, with restrictions found to be only marginally stricter than those of South Africa, and less strict than those of Egypt, two important competing sources for FDI inflows to Africa. Unlike most host nations, where the bulk of discriminatory investment measures tend to apply to services, Morocco's investment regime does not differentiate between service and non-service FDI inflows in policy restrictiveness terms. The sectoral breakdown of FDI regulatory restrictions in Figure 33 confirms the World Bank findings that investment impediments are highest in business services (architecture, accounting, and auditing services), followed by transportation (air and maritime), financial services, and media.

Figure 32. FDI Regulatory Restrictiveness Index, Selected Economies, 2020



Source: OECD, FDI Regulatory Restrictiveness Index.

Figure 33. Morocco: FDI Regulatory Restrictiveness Index, by Tertiary Sub-Sector, 2020



Source: OECD, FDI Regulatory Restrictiveness Index.

While our review of Morocco's applied regulatory regime in services points to a generally open policy stance in the sector in overall terms, the maintenance of more onerous entry and operation conditions targeting foreign operators in

some key sub-sectors—notably business, aviation, and other transport services, all of which perform critical intermediation functions that sustain Morocco's trade and employment performance in key sectors such as tourism (e.g. aviation), agriculture, and manufacturing (e.g. business and transport services)—suggests the usefulness of performing an audit of Moroccan service-sector regulation. Such an exercise would promote a useful policy dialogue between key stakeholders in the public and private sectors on the policy rationales behind existing restrictions, on the political economy underpinnings and scale of the economic rents at stake, on the case for relaxing existing restrictive or competition-impairing measures, and the attendant distributional implications.

That policy restrictions, including on labor movement, are highest in regulated professions such as auditing or legal services—a trend that mirrors practices found in virtually all countries—may not be as problematic relative to policy restrictions maintained in sectors that contribute significantly more to value added and/or where the performance exerts more consequential economy-wide impacts. A regulatory audit in services would therefore help to identify a hierarchy of domestic reform efforts and the optimal paths to pursue them (i.e. unilaterally on the domestic front or through engagement in reciprocal bargaining via international trade and investment agreements).

IV. Governance Challenges

The significant cross-sectoral diversity and regulatory complexity of the service economy implies that an analysis of this nature cannot do justice to the sectoral deep dives required for more granular diagnostics and policy reform advocacy. Rather, this closing section draws attention to a select number of governance challenges that need to be tackled to boost the trade performance of Morocco's services economy and harness more fully the sector's growth and development potential. We examine five challenges: (i) designing policy-dialogue and support measures in the sector for enhanced service-sector performance; (ii) improving service-sector fundamentals; (iii) sustaining the servicification of Moroccan agriculture and manufacturing; (iv) accelerating the pace of digitization; and (v) assigning a more central role to services in trade policy formulation.

i) Designing Policy Dialogue and Support Measures for Enhanced Service-sector Performance

The diversity of the service economy implies considerable cross-sectoral dispersion in regulatory frameworks and lead institutions and in the types of market failure to which public policy responds. Services are also typically characterized by marked difference in cross-sectoral levels of market contestability, in the predominance of the state or the market as the chief source of resource allocation, as well as in the ownership of 'voice' (or policy influence), and the demands for policy protection or openness with which such voice is expressed.

Such diversity often entails that no one 'owns' a country's services agenda. Improving policy formulation in services—including in the trade realm—requires dedicated efforts at institutional alignment and effective inter-agency coordination within government around a shared vision for the sector. It also requires an effective architecture of external stakeholder consultations geared towards the pursuit of reforms that must respond simultaneously to sectoral specificities and address economy-wide aims. In no country, developed or developing, is the above equation easily resolved, and Morocco's institutional landscape in services is no exception¹⁹. While the Ministry of Industry and Trade should in principle be the key source of trade policy formulation and implementation, it is endowed with direct regulatory oversight solely over the distribution sector (CNUCED, 2021). The Ministry defers for all other key service sectors to the regulatory purview and trade policy preferences of vertical, sector-specific ministries and regulatory agencies, the political economy of which may not always be conducive to embracing a trade-driven market-opening agenda.

Institutional dispersion typically also implies the absence of a comprehensive 'master plan' outlining the role that services should be playing in the country's development trajectory and the role that should be assigned to trade and investment policy in its pursuit. Ongoing deliberations on Morocco's new growth model could provide a useful starting point for a closer look at the country's service sector, its growth drivers and bottlenecks, and the role that trade and investment policy should play in sustaining growth inducing reforms in key sectors.

Morocco needs to create an inter-agency process vested at a sufficiently high level of decision-making authority, and endowed with the ability to formulate and guide service sector reforms (and their trade and investment policy corollaries)

19. For a fuller discussion of the political economy of Morocco's trade policy formulation process, see Jaidi (2021).

from an economy-wide perspective. Simply put, Morocco must adopt a general rather than partial equilibrium approach to service sector reforms.

Steps are needed to involve the private sector and other key civil society stakeholders more effectively in the formulation of service sector reforms. The establishment, including with initial public-sector support as has been the case in many countries, of a Moroccan Coalition of Service Industries, could play a useful role in federating the sector's many voices (currently organized along segmented vertical lines), and in championing the pursuit of those regulatory reforms and stepped-up trade commitments most likely to generate needed economy-wide impacts.

Improved efforts at trade and investment promotion will also need to be deployed by AMDIE to assist Morocco's competitive service suppliers to diversify and increase the range and quality of their service offerings and secure stronger foreign-invested footholds in key markets. This will be the case particularly in Africa, the EU, and the Gulf region, where competitiveness-boosting attributes of geographic, cultural, and linguistic proximity are most prominently on offer. The provision of support measures needs to be tailored to the sectoral specificities of services and the multiplicity of ways in which they are traded. Such a bespoke offer has arguably yet to materialize in Morocco and is not readily visible on AMDIE's website. Attempts should be made to distill key lessons from countries with successful track records in boosting services trade and investment, including through the development of dedicated economic zones for services. In this area, rich experiments are currently underway several developing countries, particularly in Latin America (e.g. Costa Rica, Colombia and Uruguay), and the Gulf region (Dubai).

ii) Improving Service Sector Fundamentals

Drawing on WIPO's latest Global Innovation Index report, Table 8 documents Morocco's performance against a range of innovation-related metrics relevant to service-sector performance, and situates this performance relative to a cohort of peers. Performance metrics in five broad areas are reviewed for a sample of 131 economies. These relate to: (i) institutions; (ii) human capital and research; (iii) infrastructure; (iv) intensity of local competition, and (v) knowledge and technology outputs. On all fronts, Morocco needs to improve if it is to provide a conducive environment in which innovative and value-adding services can be produced and traded with greater efficiency, in order to quicken the pace of underlying structural changes in the country's economy's fabric.

Of the 26 governance indicators covered by Table 8, Morocco's performance ranks above the median in only five categories²⁰, with its best ranking—30—relating to the share of ICT exports in total exports. While the Kingdom's 77 rank on the Global Innovation Index marks a commendable 17-step improvement over the level a decade ago, its overall performance on a number of key service-related metrics offers significant scope for improvement. This is notably the case for institutional characteristics linked to government effectiveness (82nd rank) and the regulatory environment (86), where Morocco remains well below the world median. Morocco also scores poorly on key metrics governing the supply of human capital, with weak rankings on tertiary education (91), the supply of knowledge workers (97), and the level of knowledge-intensive employment (115), all of which are key to fueling the growth of modern services. Such weaknesses, which are very much at play in persistently high levels of unemployment and under-employment, particularly among younger and educated cohorts, point to continued misalignment between Moroccan higher education (and vocational) policies and labor market needs. They may also point to the predominance of tourism and transport services, two sectors with below-average knowledge intensity.

Despite major improvements over the last decade fueled by significant public investment, Morocco's ranking on ICT infrastructure remains lower than it should be and well below the world median (90). The same applies to the recorded intensity of competition on the local market (rank 73), a metric which scores poorly throughout North Africa relative to the peer group depicted in Table 8. Equally weak is Morocco's performance regarding online creativity, where it ranks 104, pointing to the need for a qualitative upgrading towards a more sophisticated basket of ICT services. Morocco's better ecological sustainability performance (62) suggests there is potential to develop an export offer in environmental services rooted in innovative responses to the climate-related challenges the country shares with many neighboring countries (arresting desertification, managing water scarcity in agriculture, producing solar, wind and tidal power). To harness such potential, Morocco should consider formal participation in the Joint Statement Initiative on trade and environmental sustainability at the WTO, one of the core aims of which is to revive negotiations aimed at liberalizing trade in environmental goods, and extend such talks to environmental services.

20. These are: % of ICT exports in total exports (30th); education (56th); cultural and creative services exports (57th); business environment (59th); ecological sustainability (62nd).

Table 8. Governance Metrics of Relevance to Service Sector Performance: Ranking of Morocco and Selected Economies, 2021

Country/Indicator	Morocco	Tunisia	Egypt	South Africa	Turkey	Malaysia	Costa Rica
Institutions	74	75	114	55	93	41	66
Political environment	80	84	99	57	75	29	51
Government effectiveness	82	80	95	51	70	33	48
Regulatory environment	86	90	124	46	109	65	52
Business environment	59	54	84	75	91	50	112
E-participation	99	73	99	57	23	29	77
Human Capital & Research	82	35	93	67	26	39	61
Education	56	8	93	62	6	77	18
Tertiary education	91	16	105	98	24	15	80
R&D	71	65	55	43	38	40	72
Infrastructure	84	89	92	83	48	51	71
General infrastructure	83	128	102	82	42	55	115
ICT	90	78	92	74	47	39	64
Ecological sustainability	62	58	76	97	54	61	43
Intensity of local competition*	73	82	77	48	6	17	39

	Morocco	Tunisia	Egypt	South Africa	Turkey	Malaysia	Costa Rica
Knowledge and technology outputs	67	55	70	61	50	31	56
Knowledge workers	97	102	113	64	49	68	73
Knowledge intensive employment	115	78	50	61	69	55	56
Innovation linkages	112	114	65	53	79	38	97
Knowledge absorption	103	113	96	51	36	24	22
Knowledge creation	75	38	68	52	37	69	100
ICT services exports (% of total trade)	30	76	73	98	94	72	7
ICT services imports (% of total trade)	90	110	80	65	84	49	58
Cultural and creative services exports (% of total trade)	57	n.a.	n.a.	71	82	64	1
Online creativity	104	107	87	88	50	71	67
Global Innovation Index Ranking (2021)	77	71	94	61	41	36	56

*: 2020 rankings

Note: Rankings based on a sample of 131 economies. For a fuller description of indicators and the methodologies underpinning their measurement, see

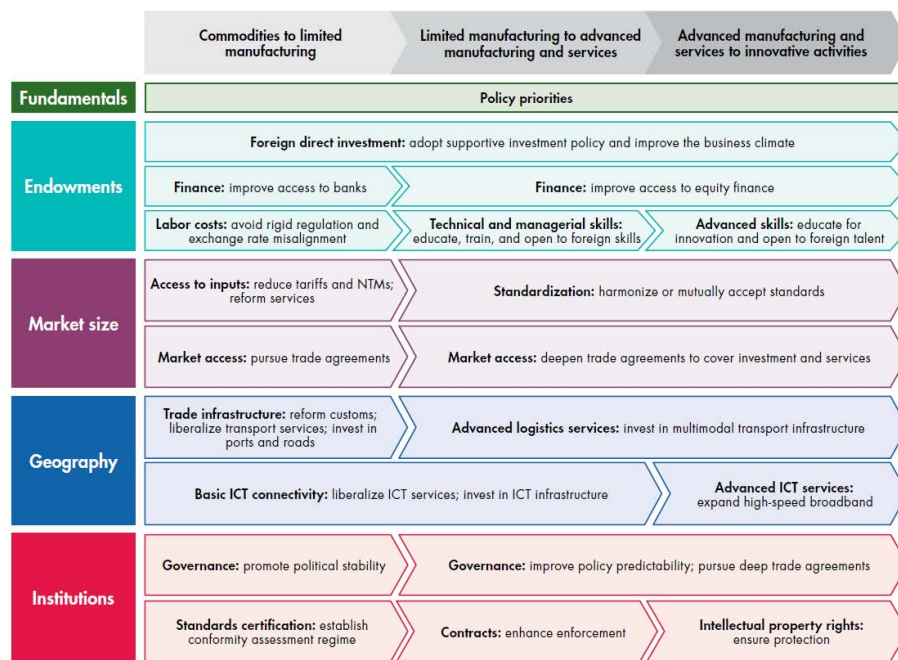
https://www.wipo.int/global_innovation_index/en/2021/.

Source: World Intellectual Property Organization, Global Innovation Index 2021.

iii) Policy Support for Enhanced GVC Insertion: Sustaining the Servicification Process

Continued gains in service sector competitiveness will see benefits from Morocco's increasing participation in more technologically sophisticated GVCs, the efforts it is deploying to improve its competitive capacity in a variety of manufactured products, including those that are import-competing, and the scope that exists to significantly increase the exportable range of agri-food products favoured by the greening of its farm policy. All are processes that place increasing emphasis on skills, connectivity, environmental stewardship, and regulatory institutions, challenges that lie at the core of evolving Moroccan service sector policy.

The World Bank's World Development Report 2020 noted how participation in cross-border production networks (so-called global value chains) is determined by a combination of factor endowments, geography, market size, and institutional performance. Figure 34 describes the range of policy measures at play when economies seek to increase their participation in GVCs, highlighting the central role that services and trade policy in services can play in addressing each of the four fundamentals noted above. Morocco's path to greater integration in GVCs requires a multipronged strategy, involving a multiplicity of policy areas and institutional actors. Table 9 depicts ten areas in which services (and service sector reforms) are part of the process of GVC upgrading, the multiplicity of institutional actors involved, and the locus (domestic vs. international) of required policy efforts.

Figure 34. Policy Measures for GVC Upscaling

Source: World Bank, World Development Report 2020.

Table 9. The Contribution of Services to GVC Upgrading in Morocco

Policy Challenges	Service Sectors Involved	Lead Actors	Locus of Reform Efforts
Attracting greater volumes of efficiency-seeking FDI and addressing investment restrictions in key foreign markets	All	AMDIE; Ministry of Industry and Trade; Ministry of Foreign Affairs	Domestic reforms aimed at improving the investment climate and engagement in reciprocal international investment negotiations
Improving access to credit	Financial services	Ministry of Finance; Central Bank; Ministry of Industry	Domestic reforms aimed at greater financial inclusiveness and SME support
Avoiding unduly rigid labor-market regulation and ensuring a better match between labor market demands and the supply of skills	Education services	Ministry of Labor; Ministry of Education	Domestic reforms aimed at enhancing the overall quality of education, skills upgrading and vocational training

Improving access to inputs by reducing tariffs and lowering trade costs	Transport and logistics and related business/trade facilitation services	Ministry of Trade; Ministry of Foreign Affairs; Ministry of Transport; Moroccan Customs; port/ airport authorities	Domestic reforms aimed at boosting the competitiveness of relevant sectors and engagement in reciprocal international trade negotiations
Streamlining domestic recourse to non-tariff/ regulatory measures and boosting competition in services market segments characterized by high concentration levels	Conducting a services-related regulatory audit; assessing market structures in key producer services (finance, telecommunications, energy, transport)	Ministry of Trade; Ministry of Finance; Competition Authority; relevant sectoral Ministries (Transport, Finance, Telecommunications, Energy)	Domestic regulatory audit; competition policy enforcement; opening up targeted sectors through engagement in international trade and investment negotiations
Pursuing deeper trade agreements that extend beyond border measures governing merchandise trade	All	Ministry of Trade and Ministry of Foreign Affairs through improved inter-agency coordination and external stakeholder consultations	Engagement in international trade and investment negotiations (bilateral, regional, continental and multilateral (including plurilateral initiatives))
Investing in ports and roads and advanced logistics	Transport Services; Construction and engineering services; Logistics services	Ministry of Transport; Ministry of Public Works; Port and airport authorities	Domestic investments and engagement in international negotiations on logistics services
Investing in basic ICT connectivity and advanced ICT services	Telecommunications services	Ministry of Telecommunications; Ministry of Trade	Domestic investments and engagement in international negotiations on digital governance
Establishing conformity assessment regimes for standards and licensing requirements, including in professional services	Business services linked to quality infrastructure (QI); Professional services	Ministry of Public Works (Quality infrastructure governance); Ministry of Trade; Ministry of Foreign Affairs; Licensing authorities in regulated professions	Domestic efforts aimed at enhancing Quality Infrastructure (QI) ecosystems (services required to ensure compliance with TBT and SPS requirements, e.g. testing, laboratories, specialized personnel); Engagement in international negotiations to promote the mobility of skilled personnel via mutual recognition agreements in professional services

iv) Promoting the Further Digitalization of the Moroccan Economy

The COVID-19 crisis has confirmed for the world the urgency of quickening the pace at which digitalization is embraced. The same is true for Morocco. Digitalization played a major role in cushioning the effect of the COVID-19 crisis in many sectors via teleworking, tele-medicine, and e-commerce. A revealing proxy of the marked pick-up in e-commerce transactions induced by the pandemic can be seen from the fact that merchant sites affiliated to Morocco's Interbank Electronic Payment Center carried out 6 million online payment transactions involving Moroccan and foreign bank cards during the first half of 2020, a 31.3% year-on-year increase. At the same time, the pandemic also revealed the need to further digitalize the Moroccan financial services sector, in which the use of mobile and internet banking remains embryonic. Less than 4% of Morocco's banked population is estimated to use mobile banking services, a level substantially lower than elsewhere in Africa, where it averages 23%, and throughout the MENA region, where one in five individuals are estimated to routinely engage in mobile banking transactions.

A range of Moroccan administrative services and educational institutions went online to maintain their essential functions during the pandemic. In June 2020, Morocco's Agency for Digital Development (ADD) launched several initiatives aimed at guaranteeing the continuity of public services and facilitating remote work within Moroccan public administrations. In addition, many transport and logistics companies, particularly larger enterprises, digitized their procedures and documents to make their services more effective and accessible in the pandemic context. At borders, such steps helped to contain or further reduce trade costs. Greater support needs to be directed towards assisting the digitalization of SMEs and improving digital-literacy levels, particularly of women and households in rural areas. Doing so can quicken the pace of recovery and provide a significant boost to Morocco's ICT and business-service sectors.

v) Assigning a Greater Role to Services in Morocco's Trade Policy

Despite its major contribution to Morocco's economic wellbeing, its role as the leading source of employment, as a key driver for greater inclusiveness, as a critical facilitator of GVC insertion, and a major contributor to the country's overall trade performance, the service sector continues to suffer from benign neglect in Moroccan policy circles, compared to agriculture and, especially, industry. This relates, in part, to the innate diversity of the service economy and the dispersed mosaic of vertical governance architectures characteristic of each sector, of which the Ministry of Industry and Trade is but one actor. Such verticality inhibits the emergence of policies informed by economy-wide considerations. Morocco's high dependence on tourism, drawn mainly from the

near-abroad markets of the EU, likely induces further policy neglect.

The tendency for policymakers to show greater concern for manufacturing, agriculture, and other 'tangible' sectors, than to intangible ones such as services, is not unique to Morocco. However, such a view is outdated. Services are now the Moroccan economy's largest sector, and they play a far larger role in the Kingdom's two-way trade and FDI performance than is generally understood. Services are also the principal source of job creation, particularly for female workers. For these reasons, domestic and trade policies that affect services deserve far more attention than they are currently getting in Morocco.

Morocco's need to accelerate the pace of ongoing structural changes towards value-adding and knowledge-creating tertiary activities, and increasingly 'servicified' agricultural and manufacturing production, requires more resolute policy attention to be paid to boosting the competitiveness of service producing firms, and to diversifying both the product range and geographical scope of Moroccan services exports. The ability to do so is arguably greater in services to the extent that many tertiary activities, particularly the rising share of those subject to digitization, are generally less beholden to considerations of scale and geographical proximity than is the case in agriculture and manufacturing. The minimum efficient scale of operation is generally lower in services, and the production of services typically requires less physical and financial capital, but rests importantly on human capital. These factors imply that the sector's growth can be highly beneficial to—and indeed is often driven by—SMEs, with generally favorable gendered outcomes²¹. Such characteristics can also help promote a more spatially balanced distribution of economic activity anchored in a plurality of (chiefly) urban centers.

Morocco has to date addressed services trade solely under the WTO's General Agreement on Trade in Services and in only two of its preferential trade agreements: first with the United States, which entered into force in 2004, in which Morocco agreed to an expanded (WTO+) set of commitments on the basis of a more transparent, negative-list approach to market opening, and second and most recently, in the context of the Services Protocol of the AfCFTA. Services disciplines within AfCFTA have been agreed but market access commitments have yet to be scheduled and continent-wide rules governing FDI, by far the most potent vector of service sector delivery, remain to be agreed.

While the concept of services trade was a novel aspect of trade governance for most countries, including Morocco, when the Uruguay Round was negotiated, Morocco nonetheless scheduled market access and national-treatment

21. See World Bank (2020) for a fuller discussion of the impact of service sector reforms on female employment and entrepreneurship.

commitments on a broader range of sectors and sub-sectors than its peers in the African and MENA regions. Morocco's commitments are significantly above the average level made by countries at its income level. Morocco scheduled GATS commitments in seven of the 11 broad sectoral categories subject to GATS disciplines²² (business services (limited to accountancy services); communication services; construction and related engineering services; environmental services; financial services (both banking and insurance); tourism; and transport Services (air and road)). Morocco's commitments chiefly focused on Mode 3 (commercial presence). Among the most commonly listed restrictions were foreign-equity limitations and the requirement for foreign operators to establish subsidiaries under Moroccan law.

Looking forward, several policy recommendations flow from the above analysis. For starters, given that Morocco's applied regulatory environment in services is often as (or more) open than that of many of its trading partners, it is important that Morocco assign a more active role to services in its trade engagements. It should do so both because the reciprocal nature of trade agreements can help overcome domestic resistance to change in sectors prone to more restrictive policy regimes (notably in professional services or sectors prone to oligopolistic market structures), and because trade negotiations represent the only feasible route to lift those barriers to trade and investment that stand in the way of efficient Moroccan service suppliers in key export markets.

At a minimum, Morocco should aim to lock-in the GATS+ nature of the commitments it made in its PTA with the United States, and should seek enhanced reciprocal commitments for its service-producing firms from key trading partners. Morocco should thus seek the incorporation of a services component into its existing network of PTAs, starting with the EU, its most important trading partner and the leading source of inward FDI in services. Other PTAs with significant scope for meaningful export gains include the AfCFTA, where the footprint of Moroccan service suppliers is already extensive but chiefly in the near abroad of West Africa; PAFTA (especially Saudi Arabia given cultural and linguistic ties and the ongoing Saudi quest for services-led diversification, notably in tourism); and EFTA (particularly Switzerland given linguistic affinities and the scope to strengthen ties in the educational and innovation fields). It should be recalled however that negotiated commitments

22. The four sectors in which Morocco refrained from scheduling GATS commitments were distribution, education, health-related and social services, and recreational, cultural, and sporting services. Morocco's schedule of GATS commitments can be found at: https://www.wto.org/english/tratop_e/serv_e/serv_commitments_e.htm. All are sectors in which Morocco agreed to undertake commitments in its PTA with the United States. Morocco's commitments under its free trade agreement with the United States can be found at: <http://i-tip.wto.org/services/SearchResultRTA.aspx>. Morocco listed only one MFN exemption under the GATS, preserving its ability to introduce new restrictive measures under existing or future bilateral and multilateral agreements dealing with road transport services (passengers and freight).

are only useful if accompanied by parallel efforts at trade and investment promotion. These may have been inadequate in the past and AMDIE needs to develop a toolbox best suited to the trade and investment needs of the Kingdom's service economy.

Morocco should also ensure that any new PTA it engages in is 'deep' in nature and extends beyond merchandise trade to cross-border trade and investment in services, and features provisions on digital commerce and the mobility of skilled workers²³. In enhancing the quality of its regulatory ecosystems for services, Morocco has much to gain from active participation in ongoing plurilateral initiatives at the WTO in the areas of services domestic regulation, investment facilitation for development, e-commerce, micro-, small- and medium-sized enterprises, trade and gender, and trade and environmental sustainability. In the latter area, efforts are underway to revive arrested negotiations on environmental goods, to which an environmental services component could be added. All are areas in which policy discussions and negotiations can be expected to produce best-practice outcomes that could enhance the quality of regulatory governance, while generating enhanced export opportunities that may improve Morocco's investment climate and doing business conditions, sustain increased cross-border exchanges and data flows (in the case of e-commerce), and open up market opportunities in areas in which Morocco may develop new sources of comparative advantage (environmental, ICT, professional, and business services). Morocco's reluctance to formally join WTO talks on e-commerce runs counter to the country's need to couch its continued digitalization on a set of sound regulatory principles, and also to its aspiration to draw on its own sophisticated digital governance ecosystem to lead Pan-African talks on the subject in the AfCFTA context.

23. The mobility of unskilled service providers, such as seasonal workers in agriculture, a category of critical importance to Morocco, is unlikely to be addressed in the Kingdom's trade agreements, which are typically biased towards the temporary mobility of business visitors and prospecting investors, highly skilled professionals, and specialists, as well as intra-company transferees. Bilaterally negotiated guest-worker programs better attuned to cyclical shifts in labor are widely considered as superior governance instruments for lesser-skilled worker categories.

Annex 1. Morocco and Regional Peers: Services Trade Restrictiveness Index by Sectors and Modes of Supply, 2020²⁴

Figure A1.1. STRI in Commercial Banking by Mode of Supply, Selected Economies, 2020

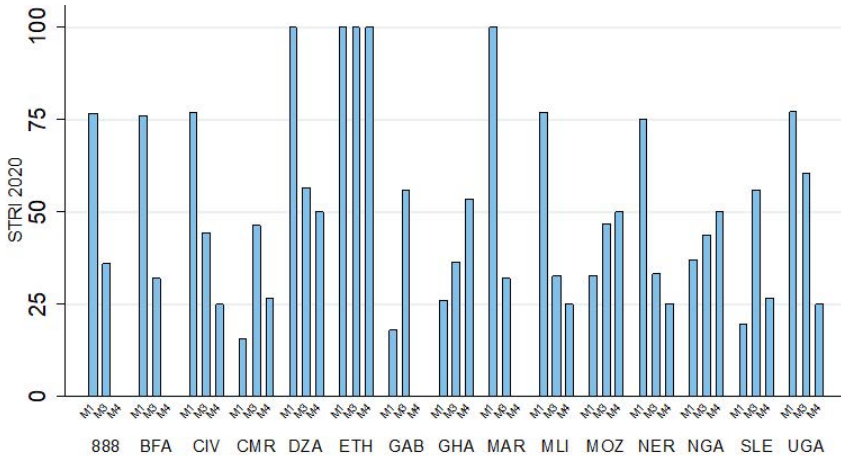
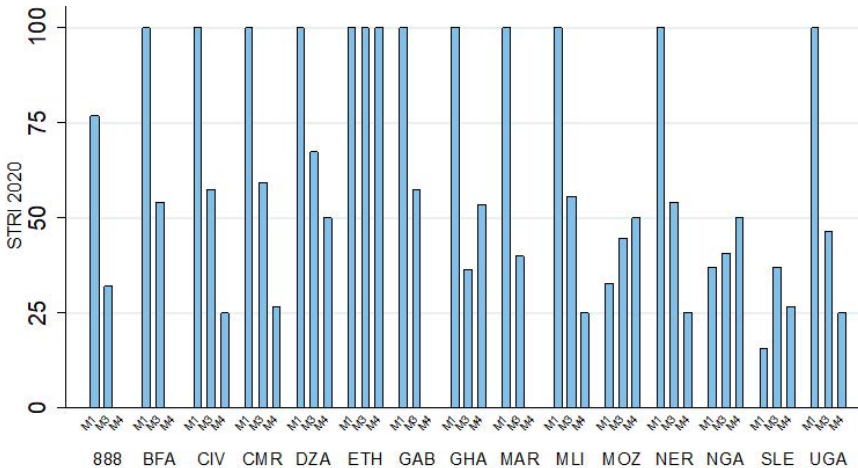


Figure A1.2. STRI in Insurance Services by Mode of Supply, Selected Economies, 2020



24. Country code 888 corresponds to Kosovo. MAR: Morocco; BFA: Burkina Faso; CMR: Cameroon; DZA: South Africa; ETH: Ethiopia; GHA: Ghana; MLI: Mali; MOZ: Mozambique; NER: Niger; NGA: Nigeria; SLE: Sierra Leone; UGA: Uganda.

Figure A1.3. STRI in Accountancy Services, by Mode of Supply, Selected Economies, 2020

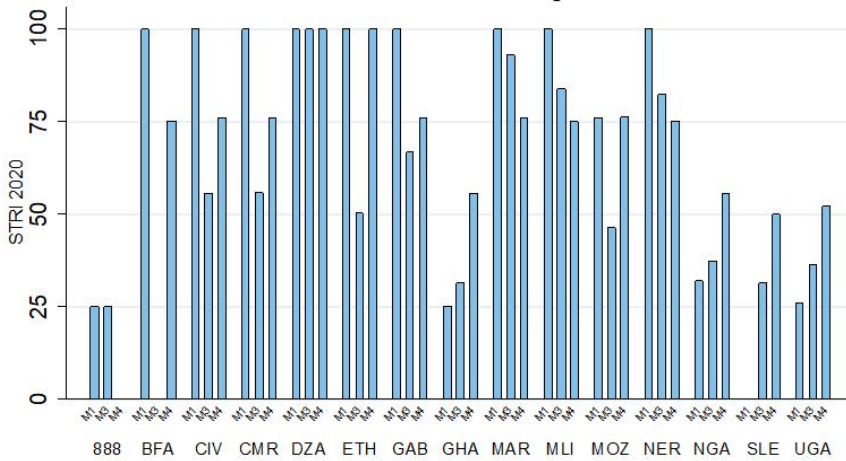


Figure A1.4. STRI in Auditing Services, by Mode of Supply, Selected Economies, 2020

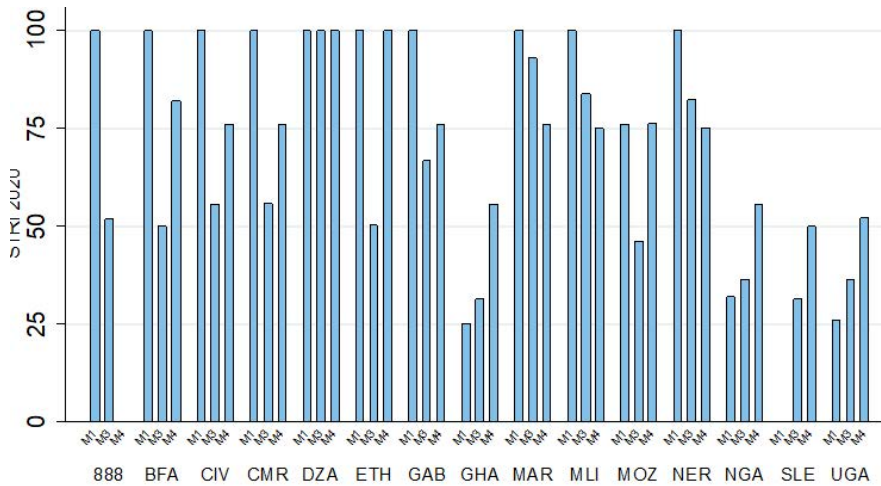


Figure A1.5. STRI in Legal Advisory Services by Mode of Supply, Selected Economies, 2020

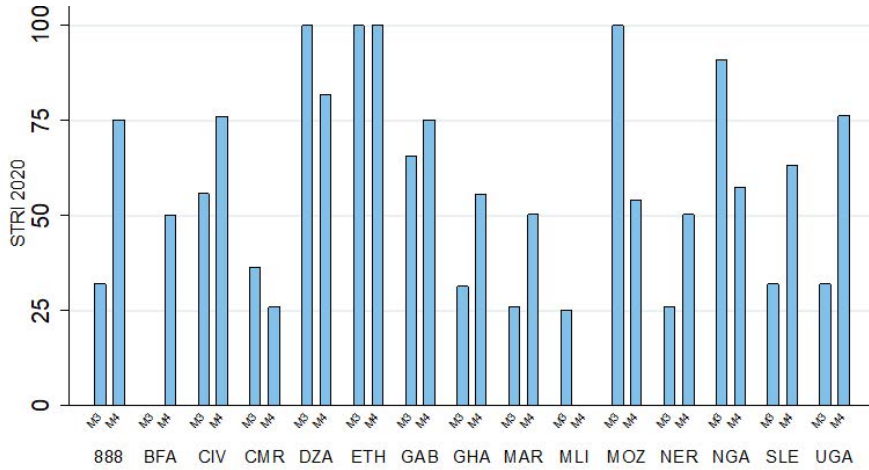


Figure A1.6. STRI in Mobile Telecoms Services, by Mode of Supply, Selected Economies, 2020

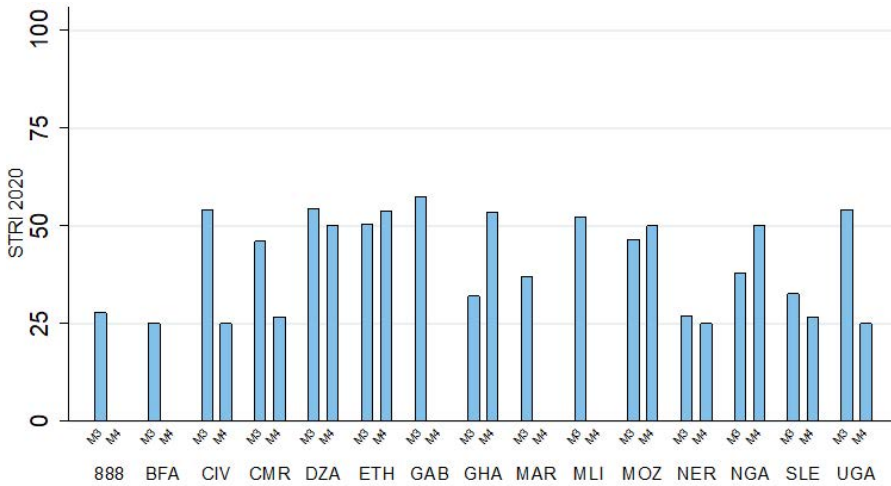
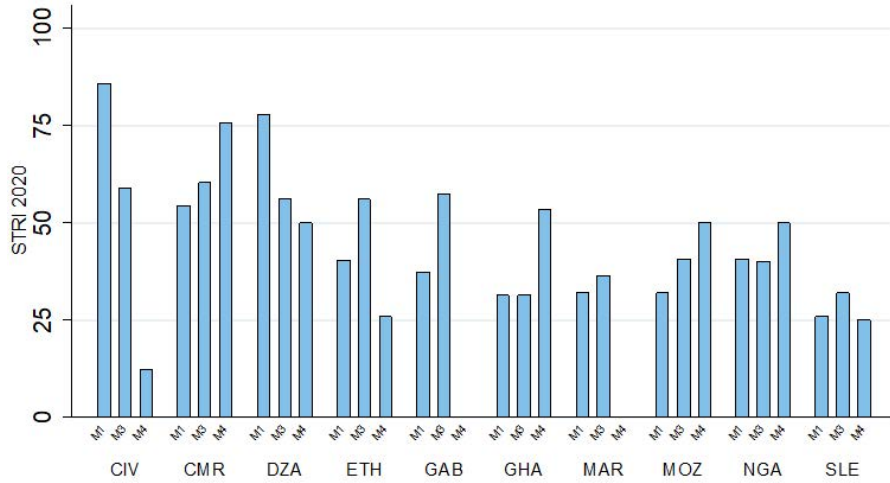


Figure A1.7. STRI in Maritime Cargo Handling, by Mode of Supply, Selected Economies, 2020



Source: World Bank, Services Trade Restrictiveness Index.

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5

STRENGTHENING MOROCCAN TRADE POLICY

Larabi JAIDI

Introduction

Morocco resolutely opted to open its economy to the world in the early 1990s, encouraging exports while gradually liberalizing imports. This openness was deemed a strategic choice, necessary to boost growth and create jobs.

The decision materialized with the signing of a range of multilateral accords (World Trade Organization membership in 1995) and preferential trade agreements (Arab Free Trade Area, 1998; European Union, 1996, European Free Trade Area (EFTA), 2000; Agadir Agreement, 2001; Turkey, 2004; United States, 2005; and Africa Continental Free Trade Area (AfCFTA) in 2020). Morocco has made substantial advances since in terms of liberalizing the import and export of goods and services, yet a more open economy has also meant lower import/export coverage rates. While strongly concerned with narrowing trade deficits, Morocco remains convinced that economic development is not possible with a protectionist trade policy.

Global market history indicates no country has achieved substantial trade gains without an effective trade policy framework. It also shows the importance for a country of having a trade policy framework that is governed by effectively coordinated institutions, and that takes into account the interests of multiple stakeholders while remaining consistent with national and general policy interests.

This chapter argues that one reason Morocco struggles to close trade deficits lies in weaknesses in the institutional framework of the Kingdom's trade policy. The Department of Foreign Trade is the primary agency in charge of overall trade policy formulation in Morocco. Morocco has seen numerous shifts in trade policy formulation in the recent past, driven by frequent governance changes in the sector. Such challenges are compounded by shortcomings in administrative capacity in terms of developing, implementing, and maintaining sound and credible trade policies. The question arises of whether Morocco has a clearly defined medium-term strategy with buy-in from all key stakeholders (ministerial agencies, other government bodies, and professional organization representatives).

It is therefore essential to examine the institutional framework of Moroccan trade policy, its ability to align stakeholder objectives, and whether it can ensure adequate regulation by producing clear and effective rules and standards that minimize political frictions and resource waste.

The first part of this chapter critically assesses the institutional framework, its strategic focus, production of foreign-trade regulation norms, and consistency of implementation. The second part examines measures that could help remedy current foreign trade policy shortcomings. Specifically, strategic, institutional, and regulatory elements could provide fresh impetus to Morocco's foreign trade.

I. The Institutional Framework of Moroccan Trade Policy

1. A Policy Vision Subject to Institutional Instability

A review of successive government declarations¹ since the early 1990s shows a convergence around a vision for foreign trade and its role in development policy. Five points emerge, reflecting consensus despite changing political alliances. Successive Moroccan governments have thus consistently worked to: (i) strengthen Morocco's position in foreign markets; (ii) support national production in compliance with Morocco's international commitments; (iii) address external imbalances; (iv) streamline foreign trade support agency

1. The Government Declaration is the general policy agenda presented to the Legislative Assembly by the Minister presiding over the executive branch.

missions; and (v) harmonize the positions of stakeholders in bilateral and multilateral trade negotiations.

Ministry of Industry and Trade actions and measures are based on these goals and are adjusted according to national and international developments. The implementation of Moroccan trade policy has suffered from unstable Foreign Trade Department positioning in successive government configurations, dating back to the early 1980s. The Department of Foreign Trade has had different statuses under the 18 governments Morocco has known since 1983.

Ostensibly, politics has exerted a predominant influence on changes in positioning: Ministry, Ministry Delegate, Secretariat of State, and General Directorate in other Ministries (Industry, Social Economy and Finance). The institutional positioning of the Department of Foreign Trade within the government has therefore often responded to considerations other than pure economic rationality, including political balance and prioritization of reforms. Despite government unity and solidarity, this institutional positioning has not always been commensurate with the sector's importance in government priorities. Political-cycle contingencies occasionally interfere with priorities and do not always allow the time needed to implement essential structural reforms.

The frequency of institutional shifts in status or positioning of the Ministry within the Government has inhibited the effective implementation of government policy priorities. The Ministry's boundaries and its ties to other departments (Handicrafts, Tourism and Industry) have been redrawn on several occasions, often leaving its relationship with other ministries (Agriculture, Finance) unclear. This has led to confusion and the proliferation of 'grey areas' in which responsibilities are not always clearly identifiable. In turn, this has fueled conflicts of attribution and uncertainty, which has proven detrimental to the continuity of public action in departments that suffer the consequences of successive reorganizations.

A volatile foreign trade structure has also led to a fragmented and compartmentalized approach to problems. This has not lent itself well to sectoral interest convergence as related to foreign trade, or to effective horizontal inter-ministerial coordination (finance and foreign affairs). Instability has also proven ill-suited for developing effective medium- and long-term strategies and, above all, for steering and monitoring Ministry actions.

2. A Policy Supported by Limited-impact Development Plans

Morocco began liberalizing its foreign trade regime in the early 1980s. The shift from a closed trade regime to an open one asserted Morocco's determination to create an updated framework for the Kingdom's trade relations with key bilateral partners, and a commitment to fair multilateralism. However, the vision was implemented in a piecemeal fashion without a broad, agreed-upon strategic framework timing sequences, acceleration and deceleration phases, iterative evaluation periods, and linkages with macroeconomic and sectoral reforms. Nevertheless, while the Ministry failed to produce an overall framework to monitor priorities and outcomes, it did produce two benchmark documents that have served as a framework for foreign trade policy: the Morocco Export+ Plan and the Sectoral Development Plan.

Morocco Export+: A Plan for an Export Brand

A summary trade policy reference document was produced in 2008, complete with objectives, target reform areas, and actions to ensure consistency. The document was designed as an export promotion strategy for the 2009-2018 period, and included an action plan that emphasized resource-pooling, institutional framework adjustment, training in foreign trade professions, etc.

Five key drivers prompted the adoption of this strategic document: (i) an international financial crisis raising fears of dwindling demand for Moroccan exports; (ii) the export promotion agency behind the document was somewhat stagnant and seeking a path to recovery; (iii) the new government conferred full ministerial status to the Trade Ministry; (iv) the launch of sectoral plans (Emergence, Green Plan); and (v) foreign trade legislation was clearly out of step with the global trade environment. While it set out foreign trade guidelines and suggested measures to be implemented, the document lacked the force of law.

Coordination Challenges Under the 2016-2020 Plan

The strategy rested on three cornerstones: (i) export development through business support (promotional actions, pooling of international networks, enhancement of trade agreements); (ii) import regulation through a range of measures (contraband control and technical and phytosanitary standards); implementation of foreign trade operator status; paperless document processing; enhanced trade protection; and (iii) economic integration support via industry compensation agreements.

Four key points arose in relation to the new government's implementation of the Plan: (i) the Strategy came into effect six years after the launch of the Morocco Export+ initiative, before its planned term (2020); (ii) no evaluation of Morocco Export+ was conducted to assess implementation performance; (iii) discontinuation of the Morocco Export+ program and reorientation of its mechanisms occurred with little justification; and (iv) the program was launched with no validation by the Council of Ministers.

Key Shortcomings

Both plans were based on a shared, comprehensive and consistent vision of trade development. It was comprehensive as it was intended to incorporate the full range of sectoral strategy implications. It was consistent in that it aligned foreign trade actions (objectives, criteria) within these strategies. Wide-ranging programs were launched with a stack of implementation measures². In practice, new market penetration remained minimal, and diversification of supply was not significantly enhanced. Preferential trade agreements were meant to generate positive impacts on the balance of trade. This approach ran into implementation difficulties.

Two cases illustrate this point. First, the free trade agreement with Turkey failed to rebalance trade between the two partners or create synergies in sectors where both countries are competitive (textiles and agro-food). Second market access opportunities under the U.S. free trade agreement were not capitalized on because of, among other things, SME size disadvantages and logistics costs for shipping and distribution of Moroccan products in the U.S.

A range of initiatives was also pursued for enhanced import regulation. These included accelerating the establishment of foreign trade operator status, digitization of foreign trade documents, and an upgrading of Trade Protection Department resources. Smuggling and contraband in its many forms (under-invoicing, counterfeiting, etc.) remain the main problems encountered in import regulation.

The Plan sought to adopt a national pact to seal collective consensus on foreign trade development. Such a pact never materialized. The strategy was not debated at national level in legislative institutions (Parliament and Second Chamber). It was not ratified by the Ministerial Council, which would have conferred greater legitimacy on it, nor was it supplemented by a thorough consultation of professional organizations, which would have made it a

2. The Plan was broken down into 20 workstreams and 70 sectoral measures. A roadmap of new services covering the 2017 to 2020 period was put in place in 2017.

participatory strategy, supported and defended by both the State and relevant professional organizations.

Similarly, the Inter-ministerial Committee for Coordination and Validation of Negotiation Mandates on Trade Cooperation Agreements, synchronizing government action with private operators, as announced in the 2014-2016 Strategic Plan, never saw the light of day. Admittedly, Morocco has not concluded any new preferential trade agreements since adopting the strategy, but it is currently working on new agreements with a number of countries (Canada, China and other Asian countries, etc.), negotiating the implementation of the African Continental Free Trade Area, and preparing to relaunch FTAA negotiating rounds. An Inter-Ministerial Committee would have made it possible to make the most of existing trade agreements in this context.

3. The Role of Legislation

There have been various regulatory inflection points in the long trajectory of Moroccan foreign trade policy. These turning points came to light with the adoption of two laws on foreign trade³ and trade protection. These laws, along with relevant implementation decrees, are now the foundation of export-support mechanisms and the protection of national production against unfair practices.

The First Law of 1990: A Weak Framework with Little Impact on Foreign Trade Regulation

The first Foreign Trade Law (Law 13-89) enacted in December 1992, representing a break in foreign trade regulation. The law removed quantitative restrictions and introduced tariffs as the main means for protecting domestic production. It formed part of the reforms driven by the Structural Adjustment Program (SAP).

Morocco's trade policy has however undergone substantial transformation since the adoption of this law, stemming from a number of factors, including: (i) Morocco's WTO commitments; (ii) the conclusion of various preferential trade agreements; (iii) the need to update trade protection rules and standards, etc. Revision of foreign trade policies was essential in the context of emerging new issues (sanitary and technical standards, unfair trade practices). Furthermore, implementation of the Trade Protection Act was hindered by a lack of appropriation and capacity. A new regulatory framework therefore had to be

3. The second law on foreign trade repealed the first.

instituted. The new law took an inordinate amount of time to come to fruition in light of changing circumstances in the policy environment. Departmental institutional instability partly explained the delays in rewriting the law.

The Law of 2015: A More Comprehensive Framework Pending Implementation Decrees

A new foreign trade law was adopted in 2015⁴, laying down fundamental principles governing foreign trade, import and export transaction formalities, and general rules governing international trade negotiations. New provisions for the protection of national production were introduced. These allow for import restrictions on new production in the form of tariffs or quotas without prejudice to Morocco's international commitments⁵. Restrictions are also authorized pursuant to the settlement of trade disputes. A new mechanism for managing tariff quotas was formalized to enhance the governance of Morocco's commitments⁶.

The new law provides for new mechanisms including a registry of foreign trade operators and rules for negotiating trade agreements (mandates and objectives, scope of negotiations, nature of concessions and related measures, inclusiveness and transparency). Publication of statutory decrees and orders implementing the law is essential to give it the intended impact. These have yet to be adopted⁷. Accordingly, implementation terms and conditions remain to be determined, though still awaited by professional organizations and trading partners⁸.

The Law on Trade Protection

The first Foreign Trade Law (Law 13-89) introduced trade protection tools into Moroccan legislation. Drawn up before the completion of the Marrakesh agreement establishing the WTO, its provisions were incomplete,

4. Law No. 91-14 on foreign trade was adopted on October 22, 2015, by the Moroccan Government Council. It repeals and replaces Law No. 13-89 of November 9, 1992.

5. For a maximum period of five years from the end of the first year of production. This period may be extended, exceptionally, for a maximum of three years.

6. According to methods, or a combination of methods, provided for in Article 14, tariff quotas set as part of domestic-production protection measures are managed and distributed among importers by the administration.

7. The law was adopted and published in Official Bulletin No. 6454 of April 7, 2016. As of this writing, the provisions of the former law remain in effect.

8. The government planned to publish implementation texts in 2020, which is also when the action plan for the National Coordination Commission for the Facilitation of Foreign Trade Procedures and the Trade Facilitation Action Plan for 2019-2021 should have been activated.

particularly with regard to investigative procedures, and rights and obligations of parties involved. The relative homogeneity of safeguard provisions found in Morocco's preferential trade agreements stems from their broad alignment with WTO standards, which serve as a benchmark in developing bilateral safeguard provisions⁹. Also, implementation of such measures remains confined to specific products, notably in agriculture. Challenges to import monitoring and surveillance systems, and to government and business capacities to navigate multilateral safeguard provisions, explain the comparatively limited application of safeguards.

A specific Law on Trade Protection Measures (Law No. 15-09) was drafted by the Ministry of Foreign Trade in 2011 as part of a comprehensive overhaul of the Kingdom's trade-remedy framework. Beyond general provisions, anti-dumping, countervailing duties, and safeguard measures form the core of this new law. While the new law is a real step forward for Moroccan trade protection legislation, implementation entails dealing with a number of challenges: clarifying implementation rules, strengthening public and private actor capacities in establishing evidence of injury to national production, and mastering the content and subtleties of trade protection measures.

Successful implementation of trade protection principles thus raises a set of challenges relating to government and business capacity to operationalize contingent protection rules and implementation methods. Success also hinges on clarifying the roles and missions assigned to each key constituent: government, business associations, and companies¹⁰.

4. A Multiplicity of Trade Actors

The CNCE (National Foreign Trade Council)

Created in 1996, CNCE (the National Foreign Trade Council) has proved in its 13-year existence that cooperation between foreign trade administration and other stakeholders is crucial in helping businesses access global markets and regain domestic ones. There has been a chemistry of skills, expertise, and know-how between the administration and private sector executives in Council commissions and committees. This has enabled reforms to be advanced in the areas of procedural simplification, international trade cooperation, and trade-related economic policies. A number of these initiatives were successfully

9. This general trend however conceals specific agreement peculiarities.

10. The Import Surveillance Commission was established in 2015. A number of new anti-dumping and safeguard duties have been applied since its creation.

implemented, while others have faced hurdles.

In 2010, the CNCE embarked on a transition heralding a scaling-up of its assignments, a transformation of its structures, and the establishment of a more sophisticated and strategic intelligence system to meet the stakes and challenges of a shifting international environment¹¹. Project implementation was halted after a few actions were launched in 2001–2002. The CNCE, as a joint body, was finally dissolved, with its responsibilities transferred back to the Ministry a few years later. This decision cost the Ministry its capacity to design and conduct convergent actions with the private sector in support of businesses.

From CMPE to Morocco Export, a Quest for Improved Export Performance

The Centre Marocain de Promotion des Exportations (CMPE, Moroccan Center for the Promotion of Exports)¹², by far the oldest organization in the field, was in charge of a number of activities, including trade promotion, trade policy research and advisory services, investor guidance on export business, and executive training. Export promotion was conducted from afar, as the organization had no regional offices, nor any representations abroad, which constrained its actions on foreign markets.

Morocco Export was born of the intention of transforming the CMPE by endowing it with a brand name to match its new strategy. The move aimed to improve the CMPE's image, operating methods, and performance without having to perform immediate in-depth 'surgery' pending a broader reform of all trade-support bodies. While not enacted by clear government procedure on proposal from the relevant Ministry, the Morocco Export strategy was nonetheless endorsed by all government supervisory bodies¹³.

Furthermore, while the 2008 financial crisis prompted swift political action to boost exports and redress the country's trade balance, Morocco Export's integrated strategy was rendered even more imperative by a plethora of sectoral

11. In 2010, the Ministry of Foreign Trade launched a study on the feasibility and implementation of an import monitoring commission.

12. Established by Dahir enacting Law n° 76.385 of December 17, 1976, CMPE only commenced activities in November 1980.

13. Procedures for drafting and adopting Morocco Export and Foreign Trade Strategies a few years later reveal both the ambiguity and the paradoxes of sectoral strategy design. Different formats are present: some strategies are validated by the highest authority in the country, others are reviewed by the government council, and others are the result of internal ministerial procedures. Most are not debated by the legislative branch, except—in very rare cases—when ministers are summoned by Parliamentary committees to examine strategy implementation. This range of decision-making mechanisms for sector strategies undermines their scope, and perpetuates ambiguity over respective stakeholder responsibilities.

plans introduced by various ministries. The Morocco Export+ Plan gave Morocco's foreign trade new perspectives through consistent implementation of targeted measures: specific measures for sectors with strong export potential, and cross-cutting measures to encourage all companies to export. Achieving convergence of Morocco Export and sectoral export plan objectives became a key challenge for the agency and Ministry. A roadmap was agreed to clarify objectives and means mobilized in this regard: sectoral targeting, ecosystem export issues, and export diversification.

The clearest expression of this strategy came in the form of the Africa Caravans initiative, a flagship program to promote exports and business opportunities with a number of African countries. The program's return on investment did not live up to expectations for different reasons, including poor follow-up on agreements and contracts, lack of involvement by the Ministry of Foreign Affairs (MFA), low turnover of partner firms, a non-differentiated promotional approach taking into account market specificities, and constraints on development of consortia.

OFEC, a Challenged Exhibition Organizer

Fairs, exhibitions, and conferences are essential communication channels for all stakeholders under the various sectoral plans (Emergence, Green Morocco, Azur, etc.), and require tailored, quality infrastructure. Providing this, however, faces many limitations. The status of the Office of Fairs and Exhibitions of Casablanca (OFEC, Office des Foires et Expositions de Casablanca)¹⁴ is marred by legal vagueness, which hinders its scope of action (dual supervision of the Office, too-large Board of Directors, etc.). The organization's responsibilities are operational and not strategic, its infrastructure is arguably below industry standards, and its finances remain precarious.

The Ministry of Foreign Trade has since 2011 implemented a number of actions to turn things around by restructuring the Office and updating its operations. Surveys were conducted in 2011 and 2014 to identify a new business development strategy for the fairs and exhibitions sector in Morocco, and to reposition OFEC as a leading player. Such surveys identified a number of shortcomings with respect to OFEC's legal status, regulatory mandates, and governance structure.

14. OFEC is a public establishment created in 1977 (Dahir enacting Law n°1- 76-535). It is in charge of organizing fairs and exhibitions in the city of Casablanca. It is under the administrative supervision of the ministry in charge of trade. The Management Committee is chaired by the Governor of Casablanca, representing the Ministry of the Interior.

Proposed actions included a legal upgrade of OFEC, establishing a contractual framework between OFEC and the State, and upgrading OFEC management. The strategy also sought to expand OFEC action to a variety of activities in the trade-fair sector: space management, event design and organization, certification and labeling, economic promotion, and assistance to SMEs. By 2020, 10 years after the launch of the strategy, none of the proposed organizational or exhibition space regulation upgrade actions had been completed. The Agency has yet to implement actions programmed since 2014. This scheduling slippage highlights some of the recurring difficulties faced by the Ministry in upgrading the sector.

Reforming and Simplifying the Institutional Framework

Institutional reform of Morocco's economic promotion framework was an early focus of the Ministry of Industry and Trade and its Foreign Trade Department. The Ministry examined the extent of convergence and divergence in the legal and operational mandates of various institutions, and the quality and quantity of resources at their disposal¹⁵. The idea of a single body emerged to best develop a comprehensive and consistent strategy for economic promotion and coordination of stakeholder actions, while preserving the tailored nature of sectoral promotional actions¹⁶. The idea was not new. As early as 1996, a number of options for reforming the institutional framework for economic promotion were considered. Pros and cons were examined to come up with the idea of creating a single body.

Institutional status quo for the promotion of Morocco abroad creates a number of problems: dispersion of efforts caused by multiple actors, insufficient resources, inadequate economic promotion efforts, gaps between the contents of legal texts and practices developed by a number of organizations. Establishment of a single promotion agency was ruled out for a number of reasons: the risk of being placed in a cross-cutting department (Finance or the Prime Minister's Office), loss of influence for the ministries concerned, and fear of creating a budgetary and bureaucratic behemoth.

15. Other agencies under sectoral or cross-cutting ministries play a role in foreign trade promotion. These include three agencies under the Ministry of Agriculture and Maritime Fishing: ADA, in charge of investment and agricultural promotion; ONSSA, in charge of import health controls; and EACCE, which is responsible for checking the conformity of food products. This is also the case for four agencies under the Ministry of Economy and Finance that interact with export procedures: SMAEX in managing the export-insurance system, ADII in economic procedures under customs control, OC in administering foreign exchange procedures, and CGC in financing loans and guarantees.

16. The review also revealed that countries successful in promoting foreign trade are those that have a framework with one or two promotion institutions at most. Indeed, agencies in these countries combine trade and investment promotion, while others include tourism promotion in addition to first two.

The most palatable option for decision-makers was to consolidate agencies under a single umbrella within the Ministry of Industry and Trade. The question of synergies among agencies under such organizational integration remains: clarifying the roles and responsibilities of departments directly involved in export promotion, ensuring coordination of agency actions with Ministry departments and units, rationalizing human and financial resources allocated to new agency functions, etc.

5. Making Sectoral and Cross-cutting Strategies Cohere

Trade policy is positioned at the intersection of macroeconomic, sectoral, and foreign policy. Foreign trade policy governance confronts the challenge of reconciling often-competing demands of ministries in charge of developing and implementing policies in distinct areas. It has close ties to economic diplomacy but struggles to find a *modus operandi* for the effective involvement in trade negotiations and monitoring of Morocco's commercial interests abroad.

Foreign Trade Performance Depends on Coherent Sectoral Strategies

Sectoral plans (Industrial Acceleration Plan, Green Morocco Plan, etc.) play an important role in Morocco's development strategy. These plans include export development objectives. Almost all aim at reducing the country's chronic trade deficit, making the latter a cross-cutting objective. Export forecasts, however, are made irrespective of impacts on imports and requisite cross-sectoral integration policies. This siloed approach partly explains why sectoral strategies have generally not performed well¹⁷.

This has complicated the coordination of partner technical and financial actions, particularly with foreign trade lacking a single coherent document setting out export promotion guidelines and encompassing various actions. Morocco's trade policy therefore has lacked consistency with sectoral strategy objectives. Such deficiencies have adversely impacted public policy effectiveness and economic and social performance. Enhancing overall sectoral strategy impacts demands consistency in strategic priorities, and implementation with foreign trade policies at each stage of the strategy lifecycle.

17. HM's quote is extracted from The Speech from the Throne of July 30, 2012: "We therefore reiterate Our call to the government to ensure convergence among sectoral strategies, and equip itself with monitoring tools and assessment and evaluation instruments to ensure coherence and measure effectiveness and efficiency in the use of funds allocated to them."

The absence of a broader coordinating framework to handle entire trade negotiating processes, from negotiation to monitoring and evaluation of agreement results, sometimes leads to jurisdictional conflicts between departments. Like many countries, the primacy of political considerations over economic rationality has led Morocco to sometimes enter into asymmetric trade relationships with highly competitive partners. Morocco's preferential trade agreements were often concluded without prior impact assessments. Upgrading the national economic fabric was only envisaged after the fact, and involved only a small portion of the Kingdom's SME fabric.

The complexity and heterogeneity of agreement-specific rules of origin have made the management of such agreements both complex and costly. National foreign trade commissions are hardly forums for ongoing consultation and coordination because of unclear prerogatives.

The Need for Economic Diplomacy to Deliver its Full Potential

Responsibility attribution within the government assigns trade agreement negotiations to the Ministry of Foreign Affairs, on the grounds that trade policy is a component of foreign policy and that treaty negotiations are best managed by diplomats. Among the reasons for housing trade policy within this Ministry include better coherence of foreign and development policy, a lower likelihood of capture by national interests, and greater likelihood the country will make effective use of its global network of embassies and missions. Moroccan economic diplomacy thus effectively confronts challenges, opportunities, and risks in dealing with changing international economic relations. A key challenge is for it to become a driver of foreign trade performance.

Morocco's Voice and Leadership in Regional and International Negotiations

Morocco took a leading role in preparations leading up to the establishment of the World Trade Organization (WTO) in Marrakech in 1994. Moroccan diplomacy played an active role, along with other Arab and African countries (Egypt, Nigeria, Senegal), in setting common positions in negotiations on rules governing the multilateral trading system. Thus, the Moroccan representation in Geneva took an active part in the General Agreement on Trade in Services (GATS) and in the Trade-Related Aspects of Intellectual Property Rights (TRIPS) negotiations in its capacity as African Group coordinator. It contributed to creating the Arab Group coalition of negotiators at the WTO. This leadership of Moroccan diplomacy in defining and unifying the positions

of both the African and Arab Groups has waned in recent years, causing a loss of influence for Morocco in advocating the trade and development interests of developing countries.

The Contribution of Preferential Trade Agreements

The Ministry of Foreign Affairs and Cooperation (MAEC) has also contributed significantly to liberalizing the national economy by playing a central role in negotiating and concluding preferential trade agreements, including two major agreements with the European Union and the United States. Morocco has entered into and implemented other agreements to diversify its trading partnerships, notably with Turkey. These agreements have arguably yet to produce expected economic and commercial impacts. Some see them as political-strategic agreements. They provide a vehicle for negotiating political alliances where security issues are crucial. However, although their scope extends beyond pure commerce, they are nonetheless focused on trade liberalization among contracting countries or clusters. Through these agreements, MAEC plays its part in defending the interests of Morocco and its companies.

MAEC has concluded bilateral, multilateral, and continental agreements in Africa, drawing on its extensive network of embassies and consulates abroad. Economic diplomacy has become a central objective of Morocco's diplomatic network, both in its missions to promote Moroccan companies abroad and attract foreign direct investment. MAEC's overseas offices should, in principle, focus on this objective, and changes in the Ministry's organizational structure reflect this determination. Yet this perspective suffers from coordination difficulties between the Department of Foreign Trade and MAEC. Foreign trade is not yet fully integrated into the roadmap of all the Kingdom's embassies.

6. Striving for greater business inclusion

Foreign trade outcomes essentially reflect macroeconomic policies (business competitiveness, exchange rates, structuring of the productive fabric, etc.), though a difficult-to-quantify part of those results necessarily depends on tools made available to businesses by public authorities in support of exports. Both plans set out inclusive programs to be broken down into program-contracts binding on both parties: the government and companies.

Genuinely Inclusive Plans?

The fact is that trade promotion operator visibility has not gained in clarity: putting a stop to the Export Caravans meant foregoing the operation's meager gains, and failing to capitalize on them. Exporters were made aware of PTA merits, but professional organizations often perceived consultations with ministries as falling short of a genuine partnership in formulating Moroccan proposals (dismantling lists and timetables, support measures), compelling companies to live with an imposed agreement rather than a desired one. Domestic firms now grapple with a multitude of agreements. It is hardly surprising that companies only make limited use of PTAs, owing to knowledge gaps in relation to the advantages of specific agreements, transaction and information costs, and compliance with complex rules of origin.

Trade Intelligence

Trade intelligence is limited by inadequate matching to business needs and insufficient coordination among agencies. Commercial prospecting for Moroccan products in target countries also suffers from insufficient support from economic services provided by embassies, and a limited network of foreign trade advisors. The pooling of AMDI (Morocco's Investment and Trade Agency) and CMPE networks fell short of expected targets for Moroccan trade promotion in priority markets. The international tenders for services monitoring and dissemination systems have also not made significant strides.

Business Support

Action plans for both strategies comprise support mechanisms for exporting companies. The uptake rate for these mechanisms remains low for a variety of reasons. Little effort has been made to create innovative and complementary mechanisms that are more in line with changing business needs. Outreach programs have mainly targeted companies in industrial regions (Casablanca, Rabat, and Tangiers). Also missing are 'proximity' actions and commercial promotion efforts targeting companies in other regions. The recently established program to support first-time exporters has only gained momentum since receiving EU funding support. Export financing and guarantees have not been significantly boosted, particularly for Moroccan companies responding to international tenders in complex sectors (construction, services), or in regions with high potential but also high risk (Africa).

Trade Support Institutions

An institutional mapping of all the stakeholders and organizations involved in foreign trade support has been completed¹⁸. It outlined the strengths and weaknesses of each trade-support institution (TSI) by assessing capacities and the range of business support services available to enterprises. TSIs aim to develop and deliver a fairly comprehensive range of trade support services that meet the needs and expectations of target beneficiaries. Such services fall into four main categories: trade information and intelligence services; export development support services; export promotion services; and services to enhance the overall trade environment.

The mapping revealed that advocacy is the most offered service, improving the overall trade environment. Information and trade intelligence are the least-provided services in terms of relevance, as these services only consist of collection and dissemination. Services depend on SME identification and expectations, and on members representing specific federations and business associations. The identification component is to be conducted professionally in a dynamic and systematic way. This allows TSIs to provide services that meet actual beneficiary expectations. Information services are confined to data collection and dissemination with no processing or analysis that provides relevant value added to beneficiaries. Support services for export development, the main objective of which is to improve competitiveness, are essentially supplied by the National Agency for the Promotion of Small and Medium Sized Enterprises (ANPME), which offers upgrading programs to both very-small enterprises and SMEs.

II. Towards Renewed Governance of Foreign Trade Policy

A review of the institutional aspects of Morocco's trade policy reveals a gap between policy orientations and implementation mechanisms. This disconnect stems from shortcomings in internal monitoring mechanisms, insufficient tools for operationalizing the country's trade policy, and reduced capacity of stakeholders. These factors together explain the gulf between reported performance indicators and actual performance. Such weaknesses are arguably compounded by inadequate stakeholder involvement and/or inclusion in trade policy design and implementation, and most notably from inadequate alignment

18. The institutional mapping project occurred on June 4, 2014, at ASMEX (Moroccan Exporters Association) headquarters, at a roundtable meeting that brought together all trade support institutions (TSIs) and the Head of the Foreign Trade Division at the Moroccan Ministry of Trade.

between Ministry plans and business-support programs and initiatives.

The major internal challenges facing the Ministry are to define a trade policy strategy and an action plan, to monitor the impact of relevant mechanisms and programs, to strengthen Ministry capacities and means at both domestic and international levels, and subsequently to manage implementation and outcomes of actions and programs. Reclaiming leadership in dialogue with stakeholders, better coordination of decisions directly or indirectly impacting specific sectors, and better understanding of the temporal phases of design, adoption, and implementation of programs and regulations, are the external challenges impacting resource mobilization, convergence of objectives, and performance.

The Ministry of Foreign Trade has in recent years taken a series of decisions to improve policy coherence and coordination with other policy areas dealing with foreign trade. These organizational (internal) and relational (external) measures should bring greater efficiency in the Department's operations. The objective is to succeed in this transformation and to strengthen it through greater visibility of action over the medium term, and to better coordinate with other departments. By addressing the root causes of the shortcomings described above, Morocco's trade policy can become a powerful lever for economic development.

Six reform areas can be pointed to:

1. Developing and adopting a strategic framework and strengthening trade policy management

In 2014, the government launched a National Plan for the Development of Foreign Trade, which applied from 2014 to 2016. The Plan provided a framework for initiating and reaffirming a variety of regulatory (foreign trade law) and organizational reforms (mergers of supervised agencies, import commission institutionalization, etc.). Other measures recommended by the Plan were not implemented (transformation of the CNCE, restructuring of the Office de Commercialisation et d'exportation (OCE) and Office des Changes (OFC), etc.). Ideally, the Plan should be evaluated, and this evaluation should provide suggestions for adjusting Moroccan trade policy and defining new objectives. To improve the impact of trade policy on the Kingdom's trade balance and turn it into a driving force for development, it is essential to implement a coherent and effective trade policy framework, based on a number of structuring avenues.

Improving the Legibility, Effectiveness and Monitoring of Regulations

A number of areas for improvement have already been identified. Morocco's law on foreign trade underwent two successive reforms. Another project has begun that aims to reform the trade-protection system. This should lead to the implementation of new measures to protect national companies against anti-competitive trade practices. While the Ministry embarked on a major overhaul of foreign trade regulations, accumulated delays in enacting implementation decrees for these new laws have left a number of areas of the legislation without practical legal effect. In future, Morocco needs to better incorporate developments to community and/or international trade law into domestic legislation. While it is appropriate to avoid upstream legislative and regulatory inflation by prioritizing areas of legislative and regulatory change, efforts should also be made to develop impact studies for new laws.

One major weakness in the steering and management of Morocco's trade policy is the absence of evaluation mechanisms. Foreign trade evaluation processes should therefore be strengthened, particularly on an ex-ante basis. Decision-making (on future trade agreements, WTO commitments, negotiation of deeper integration with the EU) should be based on cost-benefit assessments. Beyond its capacity to establish a regulatory and procedural framework to ensure transparency in agreement management, the competent authority should have the means to evaluate the economic and social impacts of future (or recently concluded) agreements, as well as the effectiveness of programs carried out by Ministry directorates and agencies¹⁹.

Considerations that call for a coherent trade policy framework, and for its translation into an updated action plan, targeting objectives that are both ambitious and realistic, include developments in the foreign trade environment, discussions prompted by mixed assessments of PTA impacts, the ongoing renegotiation of Morocco's PTA with Turkey, prospects for re-launching FTAA negotiating rounds, Morocco's new commitments to the African Continental Free Trade Area, and preparation of Moroccan or African Group positions for future multilateral negotiations or discussions.

19. Mechanisms have been initiated (import monitoring commission, negotiation mandate), but need to be institutionalized and their powers expanded. Professional monitoring and assessment would entail producing an annual report to be presented to Ministry decision-making bodies, the Government, Parliament, and professional stakeholders. The Ministry should return to publishing an annual report on foreign trade.

A Multi-year, Comprehensive Trade Policy framework

In the absence of a strategic framework and integrated management, advancement and scope of reforms, projects, and mechanisms are not always sure of yielding desired outcomes. An integrated, multi-year trade policy strategy is needed.

As a fully-fledged cross-cutting public policy, and not just a sectoral policy instrument, trade policy requires formalized guidelines within a strategic framework, an institutional structure with operational steering bodies with clear responsibilities, a multi-year roadmap, and an effective evaluation system. Strengthening the impact of Morocco's trade policy should thus be based on the following measures:

- Strategic, by establishing a framework including an updated trade policy reform plan, supported by action programs; a framework that improves trade policy visibility and multi-year programming;
- Institutional, by establishing a steering mechanism to cover two dimensions: one for management, through integrated trade policy implementation, and the other for programs and action monitoring and evaluation; and
- Operational, by strengthening the tools and instruments of trade policy analytics and coordinating trade policy stakeholders.

Alignment of a comprehensive strategic trade policy framework would thus support the impact of different trade policy workstreams. This programmatic framework would seek to: i) accelerate the adoption of decrees and orders implementing measures included in the two trade policy structuring laws; ii) identify and consolidate ongoing trade policy initiatives, making it possible to better determine interactions, scope, and reach of each action; iii) formalize a plan for updating, adjusting, adapting, and improving trade policy mechanisms, alongside programs carried out by relevant agencies and departments; iv) structure the Implementation Plan (IP) for these programs: defining action plans, appointing coordinators, etc. (v) have the Ministry's General Secretariat, or an ad-hoc committee, monitor framework implementation.

2. Intra-departmental coordination

Trade policy is drawn up at departmental level, but for trade to be a development driver, the Ministry, as the strategic and lead regulatory actor, should adopt an overall departmental policy, to be adapted to each organization according to specificity and context, and to be managed centrally in a coordinated approach.

2.1 The Potential for a New Promotional Ecosystem

Foreign trade strategy and action-plan implementation assessments show that the mandates of Moroccan trade promotion agencies overlap. Programs are often not adhered to and are frequently unrealistic, particularly with respect to resources and capacity. A reconfiguration of the promotional ecosystem was started by the merger of Morocco Export, AMDI, and OFEC into a new body: the Moroccan Agency for the Development of Investment and Exports (AMDIE).

In charge of promoting national and international investment and export of goods and services, the new Agency has an objective to build on the know-how and experience accrued by earlier bodies, with the exception of those relating to agriculture, sea fishing, crafts, and tourism. These departments retain the authority vested in the bodies under their supervision in the promotion of investment and exports²⁰. To this end, the Agency is in charge of: (i) steering prospection and investment promotion strategies; (ii) promoting the export offer in coordination with local authorities, local communities, and relevant organizations; (iii) implementing the Government's fairs and exhibitions development strategy; (iv) advising the Government on issues referred to it, and offering proposals to enhance Morocco's investment climate and export offer; and (v) developing industrial, commercial, and technological activity zones, in consultation with relevant stakeholders.

The Agency is also in charge of the Secretariat for the Investment Commission, chaired by the Head of Government. AMDIE drafts investment agreements and supervises the work of technical preparation and monitoring committees. AMDIE was established to concentrate in one place technical and financial resources, and to strengthen capacities to ensure high-quality investment and export support. Four years later, AMDIE set up communication and promotion tools, and led a number of prospecting actions on FDI attractiveness²¹.

3. Remaining Challenges

The Agency's mission is to provide a comprehensive range of investment incentives and develop mechanisms to stimulate exports and ensure a coordinated promotion of Morocco's image and its products abroad. These two structuring

20. In late 2017, the Ministry decided to merge three structures under its authority to pool resources and capitalize on respective skills.

21. Definition and profiling, specific needs per investor category, and impact sought per FDI type, feeding actions carried out during promotional campaigns or canvassing actions, CRM (Customer Relationship Management) device and extraction for monthly dashboards.

actions depend on adoption of a new investment charter, and a clarification of mechanisms to support export businesses. The potential for conflict of authority in investment matters remains between the Ministry of Finance and the Ministry of Industry and Trade. Overlapping responsibilities have been identified between the commission in charge of monitoring investment projects, which was created in 2013 led by the Minister of Economy and Finance, and a similar committee set up before this commission was established, called the 'after-care committee', led by the former AMDI²². This overlap is likely to continue if the two ministries' prerogatives in investment matters are not clarified, as this would leave the Agency with partial control over a section of the decision-making process on investment decisions. The Agency manages cross-cutting issues without corresponding decision-making power, and its proposals remain non-binding.

Entire segments of exporting sectors fall outside the scope of the Agency. This is notably the case for agriculture, agribusiness, tourism, and handicrafts²³. The role of AMDIE as an export promotion vehicle is not apparent enough with respect to its role in promoting foreign or domestic investment. The link between both dimensions (trade and investment) is still unclear. Admittedly, each is based on specific programs, actions, decision-making, and monitoring mechanisms. But the potential complementarities between the two areas of action, relating to target populations (markets, products) and project initiators (companies), are real. Aligning specific programs and cross-cutting actions across both dimensions, for greater consistency and operational efficiency, can only make things better.

From an operational point of view, the Agency has been slow to position itself as a platform for bringing together the institutions and coordinating stakeholder action on investment and exports. It also struggles to ensure convergence of initiatives with the economic-diplomacy activities of embassies and AMDIE operational management in representative offices abroad. Considering the obstacles to AMDIE development, performance in reaching full potential has been slow. Furthermore, a lengthy organizational delay was needed to implement Agency mechanisms and match structures and resources to its mandate. One issue is the collaboration between the Agency and Department channels (management, division, services). Agency momentum is slowed by unresolved organizational constraints: differences in staff status, cohesion between teams from different backgrounds, a vacant Director General position, etc.

22. This observation was made by the Court of Accounts in its report on AMDI.

23. Four other organizations are specifically devoted to these four activities.

4. Organizational Restructuring of the Ministry

The Ministry of Industry and Trade is in charge of planning and implementing government policy in the areas under its jurisdiction. This policy is expressed in development strategies, their management, their implementation through operational programs, and the coordination of cross-cutting missions that until recently spanned four prerogatives—industry, investment, trade, and the digital economy—but which today are more narrowly centered on industry and trade. Meeting the Department of Foreign Trade's targets depends on restructuring the Ministry at national and regional levels.

Strategic Stakes

The Ministry currently faces a number of strategic challenges in carrying out its missions: dealing with administrative dysfunctions, enhancing synergies between trade and industry, implementing administrative de-centralization charter provisions, digitizing services, developing support functions to provide adequate support to economic operators. These challenges need to be reflected in a new organizational model for the Ministry. The Ministry integrates the former Secretary of State for Foreign Trade's prerogatives into a General Directorate in charge of Trade. This decision should be seen as an attempt to inject greater coherence into the actions of a Ministry whose institutional format has all too often been disrupted. To remedy this problem, the Ministry's new format incorporates all foreign trade-related departments into a General Directorate of Trade, covering both domestic and foreign trade.

This choice followed a thorough reorganization of the ministry, which is now built around two main General Directorates: Industry and Trade. The General Directorate for Trade consists of several divisions²⁴, two of which are in charge of international trade relations and trade regulations. These two divisions are now in charge of drafting regulatory texts. The General Directorate for Trade also steers Morocco's export promotion and trade protection strategies. The same department is responsible for conducting international trade negotiations.

Organizational deficiencies have translated into coordination difficulties between the departments of industry and commerce, bottlenecks in the flow of information and procedures, and areas of overlap in activities and in a number of business/support functions. Such deficiencies have hindered the Ministry's performance (deadlines, costs, and quality of services). The restructuring

24. The General Directorate of Trade includes four directorates: internal trade and distribution, consumer protection and quality monitoring, foreign trade, and protection of trade regulation.

objective was therefore to provide the Ministry with an organizational and functional model able to guarantee that missions are fully supported and valued. The main expectations arising from this reorganization are: to consolidate interactions between Ministry departments, to successfully integrate horizontal and vertical dimensions, to optimize functional and administrative organization and coherence. The goal is to make the connection between the organization and its objectives more visible. This will enable a culture of efficiency and performance to take root.

New Organization: Success Factors

Success for the new organization lies fundamentally in aligning the Ministry's activities in all areas with a focus on both the vertical and horizontal coordination of respective prerogatives of all departments, in terms of Ministry strategy and key decision-making structures and levels. Effective mission execution and role allocation of various departments depends on overall coordination of functional and administrative flows produced by these departments.

The International Trade Relations Directorate can thus only aspire to become a truly strategic directorate if it has the support of the Ministry's 'General Staff' in driving programs forward and monitoring implementation. To achieve efficiency and effectiveness, it is also imperative that the Directorate work closely with other directorates in charge of monitoring trade regulation and protection issues. The implementation of trade policy should also be consistent with the country's industrial strategy. Ensuring greater fluidity of functional flows between the two departments fosters cooperation on common projects, and ensures greater accountability in decision-making.

Coordination with cross-functional departments is essential for effective management, particularly when determining job skillsets and ensuring profiles and skills are appropriate and consistent with positions filled. Communication and coordination mechanisms must be established, and a de-compartmentalized mode of operation implemented by regular dissemination of management information and changes in operational procedures, as well as the creation of a reference system for standards and management practices. This presupposes rationalizing the cost structure of Ministry interventions by means of information system integration, simplification, and digitization and digitalization of services.

The Indispensable Territorialization of Trade Policy

Morocco has made significant and sustained efforts in recent years to regionalize its public policies. Such efforts had so far been largely centralized and driven mainly by a few economic sectors. The limited and ineffective role of trade policy in these efforts is primarily attributable to three factors: (i) limited export fabric dissemination throughout the national territory; (ii) limited inclusiveness of territorial specificities in trade-policy formulation; and (iii) limited contribution of local actors to trade policy territorialization efforts.

Trade policy must recognize the significance of local governments and the importance of coordinating local player actions to engage local SMEs in the global economy. Based on the fact that the export battle is played out at the local level, it is essential to conduct a thorough analysis of local SME export potential, and to identify more businesses that could expand abroad. It is equally vital that the department in charge of foreign trade develops close ties with all local players: local authorities, presidents of regions and regional representatives of professional organizations, etc. Regions could play a central role, alongside the State, in the export and investment support ecosystem. This inclusive governance, which would bring together regional representatives of CGEM federations and Chambers of Commerce and Industry, could be built around territorial ecosystems that match the specificities of each territory.

Three developments create the conditions for progress in trade policy territorialization:

- The De-concentration Charter. Like other ministries, the Ministry of Industry and Trade is called upon to draw up a roadmap for implementing the new Charter. Institutional aspects of this convergence of territorial actors (de-concentrated services, local authorities, territorial communities...) have yet to be defined and deployed within de-concentration master plans currently under development;
- Foreign trade and trade protection are now directorates under the General Directorate of the Ministry. It is advisable to extend this institutional development to the regions through dedicated territorial platforms;
- The Ministry added a department for the coordination and monitoring of de-concentration to its latest organizational structure. It should engage in administrative de-concentration by directorate, by mapping the current missions/structures at central and de-concentrated levels.

To this end, it is essential for the Ministry to develop: i) a new mode of governance at territorial level; ii) an approach to trade policy decentralization;

iii) mechanisms to raise elected council awareness—taking competencies into account—in trade policy formulation; and iv) to better involve local businesses in export performance and domestic market protection. This orientation revolves around a number of measures:

- At the institutional level, defining and operationalizing regional platforms for trade policy coordination and programming locally;
- At the operational level, taking initiatives to promote local business inclusion in export dynamics;
- At the level of de-concentration measures, strengthening territorial-level capacity to control programming and decision-making tools, in close collaboration with Regional Investment Centers (CRI), as vehicles for authorities to promote local economies.

5. Greater Stakeholder Involvement

Addressing Morocco's structural trade imbalance is an important objective to maintain macroeconomic stability over time. Coherent sectoral strategies are essential to achieve this objective and ensure sustainable development.

The Need for Sectoral Coherence

While foreign trade brings into play a large number of public and private actors, the coherence of interventions by various players is insufficiently structured to monitor performance, effectively manage constraints, and maximize initiative outcomes. Trade policy should be consistent with a medium-term macroeconomic framework, and should be exposed as little as possible to the vagaries of immediate economic conditions. It should also be consistent with industrial and agricultural policy, and relevant mechanisms to amplify its impact on the transformation of the country's economic fabric. Finally, it should contribute to the development of local value added by reducing the import content of exports and inciting business operators to develop competitive offers for various market segments.

This involves: (i) optimizing appropriation of foreign trade rules and standards by sectoral ministries (industry, agriculture, handicrafts, etc.); (ii) involving the Department of Foreign Trade more closely in sectoral strategy design to ensure that programs converge on common objectives; (iii) speeding up the adoption of implementing decrees; and (iv) using economic diplomacy as

a tool to strengthen Morocco's negotiating capacity in regional and international trade forums.

A number of recommendations can be made to enhance the consistency of trade policy with sectoral strategies. These include: (i) ensuring the Morocco's vision for trade policy is broken down into reasonable, clear, and shared priority objectives; (ii) improving sectoral strategy planning; and (iii) strengthening sectoral policy coordination. While seemingly simple, implementing sectoral plan convergence is complex because it involves coordinating the actions of public operators and of professional organizations representing the private sector, without compromising their decision-making autonomy.

A More Participatory Private Sector

As discussed earlier, private-sector involvement in the design and implementation of trade policy needs to be stepped up. Morocco will soon resume negotiations on the Comprehensive and Integral Free Trade Agreement with the European Union (CAFTA). This represents an opportunity for Moroccan companies to improve their European market positioning. This challenge can only be met through: i) ongoing consultations with professionals in a partnership spirit; ii) involving the private sector in the preparation of negotiations, and during the conduct of trade negotiations; iii) ongoing private-sector involvement not only in trade policy design, but also downstream in policy assessment and adjustment.

Rationalization of public support tools for national enterprises should continue to respond to the challenges of international development. Preparing local companies for success abroad requires a large number of players—in the areas of training, export support, and export financing—at both central and local levels. This multiplicity of actors is not an obstacle but an asset in providing companies with an enabling environment. Export financing needs to undergo a range of reforms. A challenge is to establish conditions for their effectiveness: i) financing sources for Moroccan exports should be broadened; ii) making it easier for SMEs to access financial support for exports requires an action plan to adjust existing tools to specific needs; and iii) State support for public export guarantees is a step towards rationalizing the public support system for business internationalization, and should be reinforced.

6. Strong and United Economic Diplomacy

Economic diplomacy is an essential component of foreign market access. It needs to be offensive, both in terms of multilateral and bilateral negotiations. Morocco is currently renegotiating its trade agreement with Turkey, preparing for the second phase of African Continental Free Trade Area negotiations, and negotiating multilateral and pluri-lateral agreements within the WTO. Negotiating abilities are closely tied to understanding the technical and political processes underlying position building. Negotiations, whether bilateral or multilateral, are increasingly complex as they cover a new generation of agreements and issue areas. The effectiveness of economic diplomacy depends on the ability of the government and technical ministries to monitor bilateral and multilateral economic relations to assure 'favorable' country positioning in major negotiations.

Defending Morocco's Interests in Trade Negotiations and Regaining Leadership in Africa and the Arab World

The Ministry of Foreign Affairs relies on its position as a general 'control tower' in its missions on behalf of national interests and companies. The Ministry of Industry and Trade and businesses generally expect two levels of information from embassies—strategic and operational: (i) strategic when it comes to monitoring economic and financial policy, legislation, and driving forces of partner-country or target-country economies; and (ii) technical when it comes to guiding businesses and supporting target-market analysis and product suitability to demand.

Information becomes a strategic variable in this environment, and lobbying considerations play a significant role in Morocco's positioning in international and regional forums. Renewed momentum between the MFA and the Ministry of Industry and Trade provides opportunities to consolidate ties between the two on the global stage: giving life to Morocco's priorities and expressing its vision and economic and political perspectives. This would stimulate understanding of: (i) the impact of environmental changes on functions, objectives, and means of the diplomatic institution; (ii) the role of technical ministries in foreign policy choices; (iii) the effect of this new environment on the art and craft of diplomacy; (iv) real consideration of emerging non-state actors in the field of diplomacy (businesses, professional organizations, NGOs); and (v) ties between domestic and foreign policies in defense of economic interests.

Morocco needs to reassert its African Group leadership role in the WTO to align continental positions in multilateral trade negotiations. Morocco's

Permanent Mission in Geneva is charged with monitoring the United Nations Conference on Trade and Development (UNCTAD) and the WTO. Issues debated and negotiated in these organizations are both numerous and complex (the Doha agenda covered 21 topics). New issues have been added to the multilateral negotiating agenda over the past 10 years, including e-commerce, investment facilitation and medium, small and micro enterprises, gender, trade and environmental sustainability, etc. Likewise, the Permanent Mission in Addis Ababa is tasked, among other things, with preparing and monitoring the African Continental Free Trade Area negotiations. These have yet to come to completion, with the coming into force and adoption of tariff-dismantling schedules. Questions relating to rules of origin, non-tariff barriers, trade facilitation, and common external tariffs with a view to establishing a customs union, have barely been sketched out. Other more complicated issues on Africa's summit agenda include liberalization of services, competition, harmonization of trade protection systems, intellectual property, fair competition rules and standards, investment, and digital trade.

The Ministry of Industry and Trade is generally present at key junctures in the preparation and conduct of negotiations. Yet, assertion of Morocco's leadership in African and Arab groups within the WTO or in African Union economic commissions is held back by the weak capacity of Permanent Missions in relevant capitals. Limited capacity for action and representation leads to an undermining of the ability for Moroccan economic diplomacy to influence African and Arab group positions, and those of the continental organization.

Building-up Manpower and Expertise in Moroccan Representations

Morocco's representations in permanent missions should be strengthened in size and expertise to address identified weaknesses. Moroccan representations in Geneva and Addis Ababa are understaffed, making it impossible to monitor all activities on the foreign trade agenda. Means and resources at the disposal of Moroccan representations should therefore be strengthened.

Past experience indicates that delegations from countries lacking dedicated negotiating staff are unlikely to acquire sufficient expertise on specific subjects, while most major partners and competitors have robust permanent missions with human resources allocated to the conduct and exercise of their missions. Representations of African countries aspiring to play a leadership role on the continent, such as Egypt and South Africa, have dedicated teams of experts in these two capitals.

Morocco must regain its leadership role with the African Group in Geneva, and its influence in the African Continental Free Trade Area negotiations, to boost regional integration and harmonize continental positions in multilateral trade negotiations, through (i) advocacy for improved African Union status at the WTO for more effective African Group coordination; (ii) ownership and contribution to drafting broad outlines of the African Group's orientations; (iii) involvement in African country convergence on key continental and multilateral negotiating issues; and (iv) active involvement in consultations on the complex African Continental Free Trade Area agenda.

Strong commitment in this area will provide opportunities to better understand mutual positions, envisage common positions on specific issues depending on the underlying degree of convergence, and, ultimately, better defend strategic interests.

7. Strengthening Ministry Capacities

The revival of Morocco's position as an active, effective, and influential player in continental and multilateral trade negotiations depends on consolidating Ministry negotiating capacities to improve Moroccan efficacy in international forums and bilateral and continental relations. It is important to rethink the Trade Negotiations Committee and restructure it to better address current and future negotiations, and to maintain close ties between the Ministry's technical services (information, trade advocacy, etc.) and the National Negotiations Committee. Effective Committee operations depend not just on coordination and communication between Committee members and the Ministry's technical services, but also on Foreign Trade Department expertise. The Ministry should therefore focus on defining internal training needs in this area.

Scaling-up Technical Capacity

International experience suggests that an effective trade policy relies on four complementary levels of expertise: (i) design, which is essential because modern global trade is simultaneously shaped by evolving networks and technologies; (ii) steering trade policies, including forecasting and planning to avert contentious choices; (iii) operations management, which consists of executing trade policy operations; and (iv) operations execution, which is central to performance. The Department is at an intermediate point, at which classic coaching and task-execution functions predominate.

Current human resources at the Ministry are limited with regard to specialized expertise in specific skill sets (design-steering-supervision-execution). Among initiatives aimed at building human resource capacity, the Ministry has received training from international organizations (EU, WTO), and within bilateral cooperation frameworks (Canada, France), aimed at building capacity in domestic trade support institutions (TSIs), including sectoral and professional associations, to provide members with quality support services.

Yet, as important as these ad-hoc programs may be, they are no substitute for continued education and training provided by the Ministry, according to its priorities. Internal expertise development requires a long-term, comprehensive, and flexible training policy. Building up in-house technical expertise requires: i) broadening the Ministry's knowledge base through rigorous and targeted analytical studies; ii) developing legal services that better incorporate various legal facets, and adapting Moroccan regulations to changes in international and European regulations; iii) developing human resources by setting up foreign trade degree programs, in partnership with training and research institutes; iv) including public and private stakeholders in the drafting of bills; and v) improving dissemination of applicable legislation and regulations.

The Need for Monitoring and Evaluation

Information is fundamental for business competitiveness, whether operating domestically or globally. The CNCE (National Foreign Trade Council) has started a number of studies to examine issues arising from inadequate foreign trade institutional and commercial information. According to CNCE analysis, foreign trade statistical information systems are a major asset, but also have limitations. The national system should be enhanced with specific quantitative and qualitative foreign trade systems to meet the direct and indirect needs of both the Ministry and business users, while maintaining a strong trade intelligence component.

The raw data needed to feed active intelligence exist. Such data is generated by leading statistical system producers (HCP, Office des Changes). A few economic actors (public enterprises and banks) have their own information systems enabling them to meet specific information production requirements. These are a few of the relative strengths of statistical information systems in goods and services trade flow coverage. The system also has a number of weaknesses. It is concentrated in the hands of public bodies. It fails to produce data that is either raw and non-specific, or sector-specific. Information lacks granularity.

The CNCE began implementing a new system in 2012 based on three programs: service offering, organization, and support. Some progress was made on the project, but it was never completed after CNCE's liquidation. Decision support intelligence is a fundamental issue for competitiveness and access to global markets. The challenge is made trickier today on account of the growing importance of unstructured (or unconventional) data. The Department must address the challenge through better organization and implementation of information production and management processes that: i) rigorously identify private and institutional operator needs; ii) use relevant sources and seek useful information to drive reflection; iii) validate information relevance to transform it into actionable formats for recipients; and iv) opt for effective information dissemination and communication methods, suited to both information and recipient characteristics.

The system initially conceived by the CNCE remains broadly valid. The Observatory currently being set up at the Ministry might be rebuilt around the following guiding principles:

- Strategic: ongoing analysis of threats and opportunities to global trade, identification of emerging trends in the international system, identification of issues for Morocco;
- Operational: enhancing operator decision-making capacity by understanding information needs via tailored formulas;
- Professional: offering the right tools and methods, using the latest developments in the field of economic intelligence.

Concluding Remarks

A country's trade policy necessarily forms part of an overall national development strategy. It calls for implementing a trade policy process that sets out specific objectives consistent with overall development objectives and collaborative programs. Hence the importance of a trade policy framework. Although it may not be possible to identify an ideal trade promotion institutional framework, our assessment of Morocco's trade policy shortcomings underscores the need for a trade policy framework that provides:

- A coherent trade policy tightly tied to the country's overall development strategy, based on clear, efficient, and transparent regulations;
- Effective, credible, and budgeted networks of agencies and programs working to promote trade within controlled time-frames;
- Effective consultation and coordination mechanisms among the main stakeholders: other ministerial departments, economic diplomacy, businesses, territories, and professional and other civil society organizations;
- Human resource capacities with skill sets and expertise to enhance departmental information and research, and to provide a proper trade-intelligence system.

Good trade governance should emphasize the importance of foreign trade activities at inter-ministerial level. Faced with global environment disruption risks, good coordination of actions across public agencies involved in foreign trade is an essential part of meeting the challenge. A new holistic approach is required based on synergies and a Government/Ministry/Directorate General of Trade/AMDIE/Other Ministries/Professional Organizations continuum. A strategic framework for consultation and orientation of actions by all stakeholders needs to be instituted. Furthermore, all stakeholder missions need to be upgraded and supported with financial and human resources. New synergies among stakeholders (departments, agencies, embassy economic attachés, sectoral federations, chambers of commerce and industry, etc.) need to be developed to complete the target market 'matrix' and thus provide accurate intelligence on business opportunities (for both foreign and domestic markets). Regions also need to be actively engaged in 'international' positioning, and should act in synergy with other stakeholders.

Foreign trade support system rationalization is essential to expand exports and strengthen domestic competitiveness. Morocco has overhauled its international business development support system and merged a number of agencies to improve system efficiency and responsiveness to economic

conditions. Despite these efforts, the system still lacks coherence and ought to become more effective. It should give priority to collective economic intelligence over multiple 'structures' and/or 'programs'. It should therefore rely on existing public and private actors, and synergize their respective capacities for action. Economic diplomacy needs to be more offensive. It is an essential component for accessing foreign markets. Standards and regulations governing foreign trade need to be made more comprehensible to businesses and partners.

While protectionist solutions are inapplicable in an open economy and ought to be rejected, Morocco's trade policy needs to become less naïve. Hence the need to strengthen government, professional associations, and business capacities to more effectively deploy coercive measures (anti-dumping, safeguard and countervailing measures), governed by preferential trade agreements when justified. Rebalancing Moroccan trade calls for increased competitiveness, and greater efforts to implement fair trade-protection rules, greater vigilance and firmness in implementing agreements, and genuine reciprocity in all areas (public procurement, non-tariff barriers, etc.).

Significant scope exists to improve Moroccan trade policy. The Ministry seems committed to building an effective foreign trade institutional framework. Organizational and regulatory reforms have taken place in recent years. The core job now is to consolidate national trade policymaking, enhance stakeholder consultations, and address identified capacity gaps. Such an approach will help create a permanent, sustainable, and dynamic capacity that can set goals, establish work programs, and measure progress. It will also improve the quality of trade-related information and favor the buy-in of private sector and civil society actors to national trade strategies and choices. It is essential to better harness existing resources. Synergy of vision and action is the key to sustainable recovery for the country's external accounts.

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PART II

**FUTURE DIRECTIONS IN
MOROCCAN TRADE POLICY**

6

A REVIEW OF NON-TARIFF MEASURES FACED BY MOROCCAN FIRMS

Sahar Sajjad Hussain, Shane Sela & Jamal Machrouh

I. Introduction

This chapter responds to a request from the Government of Morocco to provide a review of non-tariff measures (NTMs) faced by Moroccan firms in export markets. Policy measures generally referred to as non-tariff measures (NTMs) have a profound impact on the structure of global trade and the participation of countries in global trade. While generally applied in pursuit of legitimate public policy objectives, NTMs can become formidable obstacles to trade. For example, Chen et al (2006) found that testing and inspection procedures can reduce exports by 9% and 3% respectively. Hoekman and Nicita (2008) showed that halving the ad-valorem equivalent (AVE) of NTMs, from around 10% to around 5%, would boost trade by 2%-3%. Djankov et al (2006) found that one-day delays at borders could reduce trade by 1%. In particular, a day's delay reduces a country's exports of time-sensitive agricultural goods relative to time-insensitive agricultural goods by 6%. NTMs often lack transparency and raise compliance costs, especially for suppliers in developing countries.

Firms, particularly developing country SMEs, often have limited capacity to bear the costs of compliance, and lack the organizational skills required to export to markets such as the European Union and the United States, which employ arrays of import regulations exceeding those of most developing countries and the world average. U.S. NTMs cover 77% of incoming products, while EU

NTMs have a coverage ratio of over 94%. Both ratios far exceed the 55% average of least-developed countries (LDCs). Morocco also has many NTMs, which stand in the way of imports into Morocco, mainly consisting of sanitary and phyto-sanitary (SPS) and technical barriers to trade (TBT) measures. About 57% of imports into Morocco face NTMs of various kinds, and some 45% of products imported into Morocco face one or more NTM, in line with the international average (Source: WITS). Moroccan exporters also face home-made NTMs. For example, a rather dated survey of Morocco's exporters (ITC, 2010) suggested that about one third of NTMs arise from Moroccan regulations governing exports of goods, including various types of licenses, quality control, and customs regulations.

It is important to bear in mind that, although NTMs can be deployed as protectionist instruments, many exist for legitimate policy reasons, such as health and safety, and, moreover, such concerns have become more prevalent among the general public, with rising living standards and consumer awareness. It is also worth noting that technical and sanitary standards, which are the most common type of NTM, are nearly always applied equally to domestic and foreign producers in a non-discriminatory manner.

The rest of this chapter is structured as follows. After outlining Morocco's main export products and markets, an overview of NTMs in Morocco's main existing and potential export markets is provided. The use of NTMs varies considerably across sectors, and the chapter digs deeper into the NTMs faced by select commodities important to Moroccan exporters, especially sanitary and phytosanitary standards, which affect Morocco's agricultural exports, as well as technical standards which affect Morocco's exports of cars, chemicals, aircraft parts, etc. The ability of Moroccan exporters to comply with such standards, when they are applied for legitimate policy reasons is discussed. The chapter's final section provides policymakers in Morocco with insights on global best practices in negotiation techniques to tackle NTMs, and advances some recommendations.

Key messages

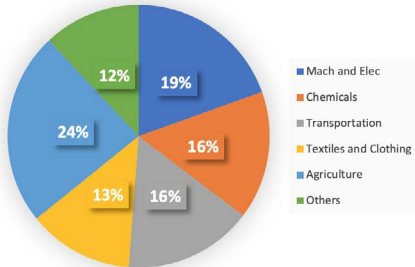
- Moroccan firms face a wide range of NTMs on world markets, which vary considerably by country of destination and sector. However, given that NTMs often pursue legitimate public policy objectives, such as public health, their discriminatory effect is often difficult to assess.
- The Moroccan government can play an important role in helping firms overcome NTMs by improving their compliance capacity.

- The Government can also identify and remove NTMs in Morocco that do not achieve their stated objectives or are unnecessarily cumbersome and which impede exporters. NTMs can also stand in the way of imports of parts and components, machines, and raw materials, which are needed for Moroccan firms to produce efficiently.
- Through negotiations, and by following best practices, Moroccan authorities may be able to mitigate the most egregious and damaging NTMs faced by Moroccan firms abroad. Typically, this will require some form of reciprocation.

II. Moroccan Exports: Products and Markets

Morocco's goods export basket has remained relatively stable over the past decade. Figure 1 shows Morocco's exports by product group. Agricultural products account for the largest share in goods exports (23%), followed by machinery and electrical equipment (18%), and chemicals (17%). Other significant merchandise exports include transportation (16%) and textiles and clothing (13%). Figure 2 shows Morocco's major export markets. The top export destinations for Moroccan exports are France and Spain, followed by the United States, Italy, and India. Agricultural products are mainly exported to Europe and Russia. Machinery and electronics are also directed to Europe mainly, but also to Singapore, while the destinations for chemicals are more diversified (U.S., India, Brazil, Pakistan, and Turkey). Top destinations for transportation goods are France, Spain, Italy, Germany, and Poland, and those for textiles and clothing are also concentrated in Europe: Spain, France, the United Kingdom, Portugal, and Ireland (Figure 3).

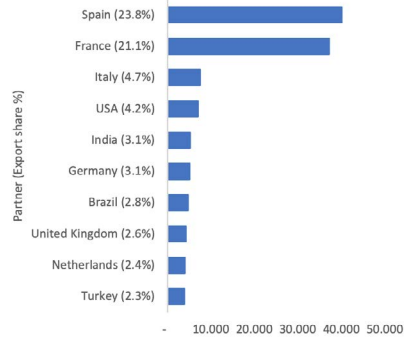
Figure 1. Morocco's Exports by Product Group (2019)



Source: WITS, HS 2017.

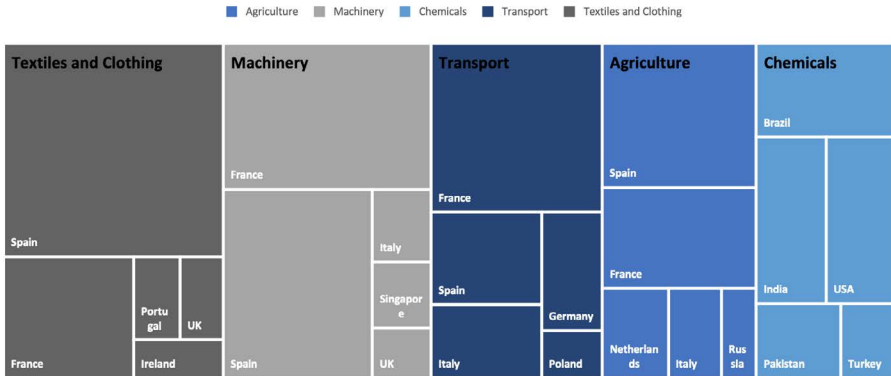
Notes: 'Agriculture' includes: Animal, vegetable, food products, rubber, wood, hydes and skins. 'Others' include: minerals, metals, Miscellaneous, Fuels, Footwear, Stone and Glass.

Figure 2. Morocco's Top 10 Export Markets in 2019, millions



Source: WITS.

Figure 3. Major export markets by product (2019)



Source: WITS

III. Incidence of NTMs In Morocco's Export Markets

This section provides a descriptive analysis of NTMs faced by Moroccan exporters in existing and potential markets. How NTMs affect market access and competitiveness is mainly assessed in terms of the incidence of NTMs, using simple inventory measures, and their severity, measured by ad-valorem equivalents (AVEs). This chapter illustrates the incidence of NTMs Morocco faces abroad through the inventory approach (Cadot et al, 2018), using three indicators: the frequency index, the coverage ratio, and the prevalence score. The frequency index captures the percentage of products that are subject to one or more NTMs. The coverage ratio is the percentage of trade subject to NTMs for the importing country. It provides a measure of the importance of NTMs for overall imports. The pervasiveness score captures the average number of NTMs that apply to a product (Ferrantino et al, 2012; UNCTAD, 2010, 2013, and 2016). This can be used to identify what product is affected by the largest number of NTMs, and how many NTMs on average apply to a group of products.

To assess the severity of NTMs and their impact on Moroccan trade, this section also provides a literature review of AVEs from existing analysis and data on concerns expressed by traders, i.e. private sector surveys¹, where available, to complement the incidence analysis.

NTMs include a wide range of technical, industrial, health, and labor regulations, various standards and specifications related to product characteristics, food hygiene, safety or environmental standards, which normally have legitimate official objectives to protect the health of consumers, the safety of users, as well as the preservation of human, animal, and plant life and the environment. They also include standards to ensure the quality of product manufacturing and to prevent deceptive practices that harm consumers. However, abuse in the use of such standards could disguise the pursuit of objectives aimed primarily at protecting domestic producers.

According to some estimates in the literature, NTMs appear to have an overall negative effect on Moroccan foreign trade through the multiplicity of technical standards, cumbersome customs and administrative procedures, and quantitative restrictions faced by the Kingdom's exporters. Khoulid and Echaoui (2017) calculated AVEs (see Table 1) and found that exports under the Agadir Agreement (average AVE is 25.6%) and under the Morocco-Turkey Agreement (average AVE 52.6%) are much more affected by NTMs than exports under the Morocco-EU agreement (average AVE 12.1%). Exports of products from all

1. International Trade Center (ITC) surveys.

sectors within the EU are less hampered by NTMs than those exported to Turkey or the countries of the Agadir Agreement, for all major product groups other than mineral products, for which the Agadir agreement is found to apply the lowest tariff equivalent (6%). AVE estimates of NTMs must however be treated with caution since they are based on many assumptions about the structure of trade using econometric estimation techniques subject to large statistical errors. Thus, the numbers in the table should be considered only as broadly indicative of the importance of AVEs. Moreover, in many instances, NTMs are in place to protect a country's social, environmental, and economic interests, and are based on sound technical justifications. Therefore, it is important to look at more market- and commodity-specific situations to assess their trade-distorting nature.

Table 1. Ad-Valorem Tariff Equivalents (%) by Agreement and Sector

Agreement	Agriculture	Industrial products	Mineral products	Average AVE
Agadir Agreement	43.0	27.9	6.0	25.6
Morocco-Turkey	61.6	74.1	22.1	52.6
Morocco-EU	17.6	9.3	9.4	12.1
Average AVE	27.1	19.1	9.7	18.6

Source: Adopted from (Khouilid & Echaoui, 2017)

We now turn to a count of NTMs by trading partner and sector, and to a qualitative discussion of how NTMs arise and their effects.

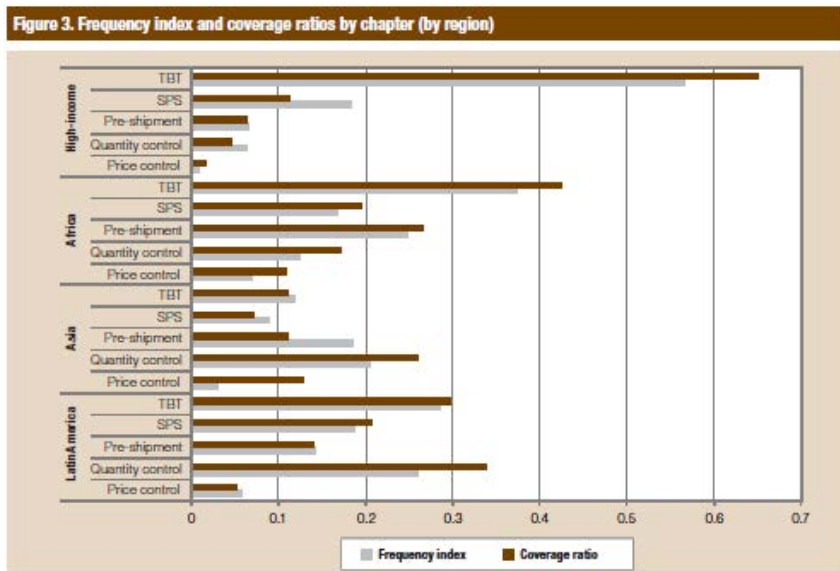
1. Overview of NTMs imposed by Morocco's trading partners²

We start the descriptive analysis by examining the incidence of NTMs imposed by Morocco's top trading partners—the EU, U.S., Brazil, India and Turkey—and potential trading partners—Indonesia, Malaysia, and Vietnam. Figure 4 looks at the incidence of NTMs by region. Sanitary and phytosanitary (SPS) measures and technical barriers to trade (TBT) are the most commonly used forms of NTM across all regions, but many countries, mainly in Africa

2. UNCTAD TRAINS NTM database.

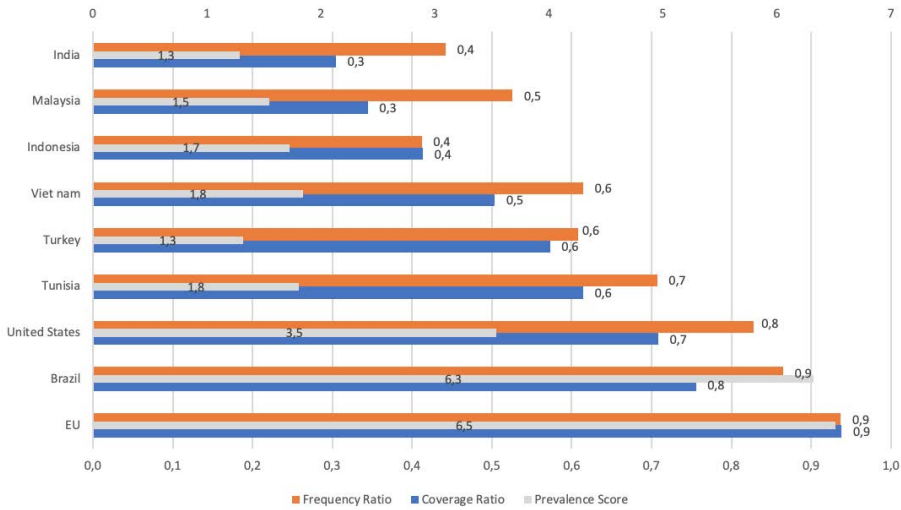
and South Asia, continue to impose potentially WTO-inconsistent quantitative restrictions as well, largely in the form of licensing requirements. TBT measures are the most frequent form of NTM, with almost 40% of product lines and about 55% of world trade affected, while quantity and price control measures affect about 15% of world trade. Price controls and export measures are also widely used, covering almost 40% of product lines but less than 20% of world trade. Meanwhile, SPS measures affect about 25% of product lines and 10% of world trade (UNCTAD, 2018). Figure 5 illustrates the overall incidence of NTMs across Morocco’s major destination markets. The highest level of incidence is in Morocco’s largest trading partner, i.e. the EU, followed by Brazil, and the United States. However, it is important to reiterate that NTM incidence only indicates presence of NTMs and not the level of trade restrictiveness. Therefore, it may be likely that some destinations may indicate low NTM coverage on Moroccan exports in a particular sector because restrictive NTMs may have diminished or even prevented exports in that specific sector. To tackle this, subsections B and C will provide an analysis of NTMs in the main markets for Morocco’s top exports.

Figure 4. Coverage Ratio, Frequency Ratio, and Prevalence Score by Region



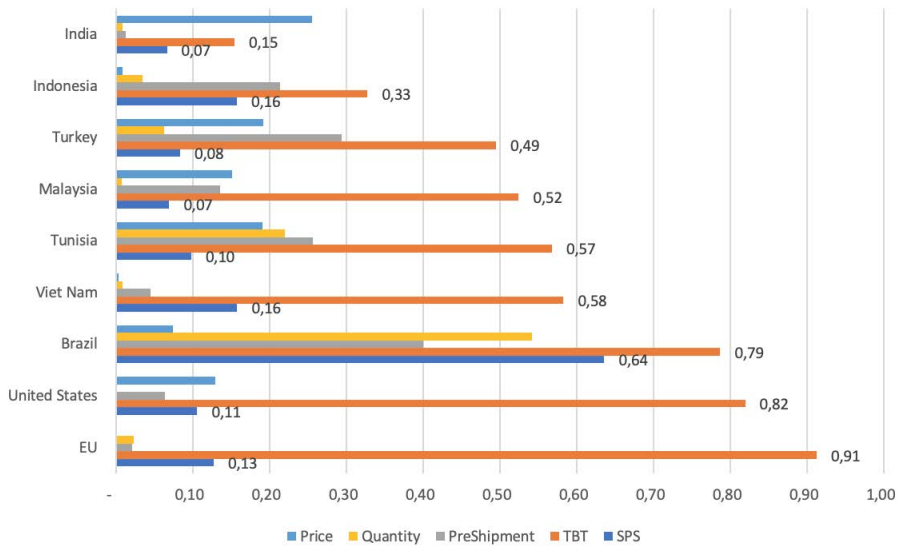
Source: UNCTAD secretariat.

Figure 5. Coverage Ratio, Frequency Ratio, and Prevalence Score in Top Export Markets



Source: UNCTAD, WITS.

NTM coverage varies across the different NTM chapters. Figure 6 lays out the coverage ratios for NTMs by chapter in each of Morocco's destination markets. Overall, TBT measures are the most frequent across all markets (with 33%-91% coverage ratios), except for India where price measures are the most prevalent. The highest incidence of SPS measures is found in Brazil, with a 64% coverage ratio. Pre-shipment inspection and quantity-based measures are most prevalent in Brazil, Tunisia, Turkey, and Indonesia. Figure 6 shows that 25% of Morocco's exports to India are subject to minimum price requirements, while only 2% are subject to quotas and to pre-shipment inspection measures. On the whole, 15% of Morocco's exports to India need to comply with TBT measures, and 7% face SPS requirements. In the EU, by far the Kingdom's most important export destination, fully 91% of Morocco's exports have to comply with TBT requirements, while 13% face SPS measures. Meanwhile, price and quantity restrictions affect only a tiny part of Moroccan exports, chiefly in the agricultural sector.

Figure 6. Coverage Ratios by NTM Chapter in Destination Markets

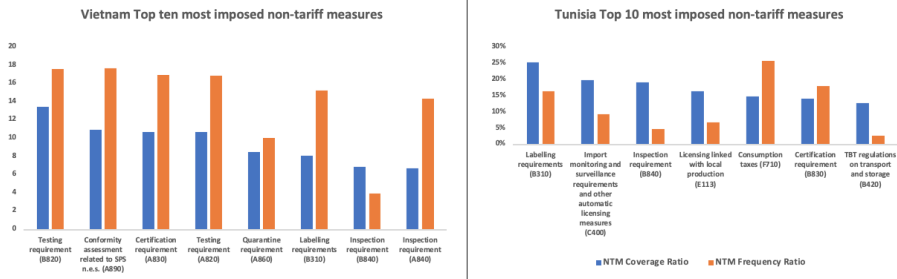
Source: UNCTAD.

Figure 7 shows the top measures imposed by each of the destination countries, according to the WITS database³. The top measures imposed by both the EU and the U.S. are TBT measures. Brazil's imports are mainly subject to SPS, TBT, and quotas. Top measures imposed by Russia and Turkey are TBT-related, but also include specific port requirements, consumption taxes, and measures affecting competition (only in Russia). Top measures imposed by Indonesia include registration requirements for importers for TBT purposes, traceability information requirements, inspection requirements, authorization requirements for TBT purposes, and product quality or performance requirements. Malaysia's top measures include TBT-related authorization requirements, labeling requirements, import license fees, testing requirements, TBT regulations on transport and storage, traceability information requirements, product registration requirements, and conformity assessment measures related to TBT not elsewhere specified (n.e.s). In Vietnam, most TBT requirements deal with labeling, certification, conformity assessment related to TBT (n.e.s), quality, safety and performance requirements, and inspection requirements.

3. <https://wits.worldbank.org/tariff/non-tariff-measures/en/country/IND>.

Figure 7. Top 10 Most-Imposed NTMs by Export Destination

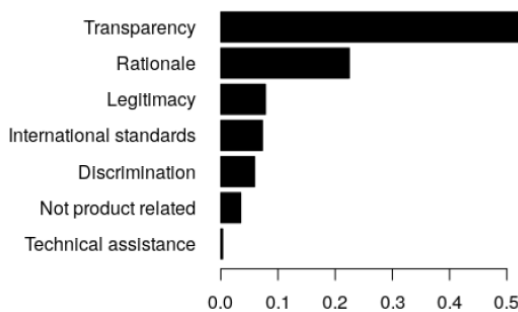




Source: WITS.

In addition to the requirements themselves, transparency (or the lack thereof) in the notification of NTMs often matters more. According to the WTO’s TBT Agreement, a technical regulation must pursue legitimate policy objectives, be non-discriminatory, and be implemented in a transparent way. If other WTO members find that a Member’s TBT measure poses an unnecessary obstacle to trade, they can raise a Specific Trade Concern (STC) to the world trade body. Most such complaints relate to a lack of transparency (Figure 8), according to a database compiled by Iodice (2020). Non-transparency can be defined as an instance in which a country enforces a TBT measure without previously notifying it, with the underlying TBT termed a ‘surprise measure’.

Figure 8. Most Frequent Reasons for STCs



Source: Iodice (2020).

Table 2. Top 5 Countries and Products by Surprise TBTs

Country	#(Surprise TBTs)	Share (%)	Sector (HS2)	#(Surprise TBTs)	Share (%)
EU	17	26	Beverages & Spirits (22)	29	40
Korea	10	48	Meat (02)	18	50
China	10	27	Edible Preparations (21)	17	35
India	7	70	Fish (03)	15	47
USA	7	50	Electrical Machinery (85)	13	33

Notes: The share of Surprise is the ratio between the number of contested TBTs introduced by a country (within an HS2 category) as Surprise measures over the total number of contested TBTs introduced by the same country. Results are shown for the first ten countries in terms of Surprise share and only for those countries with at least 3 contested TBTs.

Source: Iodice (2020).

Table 2 shows the frequency of ‘surprise TBT measures’ by country and number of HS4 products within HS2 categories. Iodice (2020) found that surprise measures are most common in developed countries but also in China and India. The author found that new ‘surprise’ regulations hamper exporters by imposing costs associated with delays in customs clearance, and in searching and screening required documentation. Such measures can cause damaging halts in the exporting activity of firms. While large firms are able to wait until more information is available, small and medium-sized firms are often forced to exit the market.

The use of NTMs varies considerably between sectors, and so the next two sections focus on the NTMs faced by commodities that feature prominently in Morocco’s export basket. Overall, agricultural products are relatively more regulated than other sectors in terms of both SPS and TBT measures. For our analysis, we look more closely at two NTM chapters found in most trade agreements: (i) Sanitary and phytosanitary (SPS) measures, which aim to protect human or animal life and include e.g. regulations on maximum residue limits of substances such as insecticides and pesticides, assessments of food safety regulations, and labeling requirements; and (ii) Technical barriers to trade (TBTs) which are standards and regulations applied to goods not covered by SPS measures, such as standards on technical specifications of products and quality requirements.

2. SPS Measures imposed by Morocco's Partners

SPS measures are intended to protect human, animal, and plant life. The World Trade Organization Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement) provides a framework via which countries can impose import requirements to manage risks associated with trade in food, animal, and plant products, including the conveyances moving these products. Although the agreement recognizes the sovereignty of countries to establish requirements which protect human, animal, and plant life, it balances this with the need for countries to develop sound technical justifications to support the imposition of measures, and to limit those solely to what is reasonable to achieve protection. Among other more detailed guidance on transparency, fairness, and regulatory efficiency and effectiveness which mirror the WTO's Trade Facilitation Agreement, the SPS Agreement also requires members to use international standards prescribed by Codex Alimentarius, the World Organization for Animal Health (OIE), and/or the International Plant Protection Convention (IPPC), thereby encouraging the adoption of harmonized SPS requirements. The agreement also encourages countries to recognize equivalence between measures, further driving regulatory convergence. Recognition of equivalent measures is not limited to countries that apply identical approaches, but also includes situations where the outcomes are equivalent even though the specific details in achieving the outcome differ. The application of measures therefore should not create an unnecessary impediment to trade (see Box 1).

Box 1. Balancing Trade and Risks

Some international standards provide more prescriptive guidance (e.g. The Terrestrial Code, maximum residue limits (MRLs) for pesticides, additives, regulation of wood packing materials, etc.), which allows countries to more easily set import conditions. Often SPS standards provide only conceptual information which must be adapted to the specific conditions and country environments. Countries therefore must establish requirements on their own perceived 'acceptable level of risk' or 'appropriate level of protection'. Risk analysis requires importing countries to consider not just the available technical information about the threat, but also the uncertainties associated with that information, which may be extensive if the threat is newly discovered. The impacts that may result if the threat is introduced must also be balanced against the impact of any measures used to mitigate the threat, among other more basic technical and societal considerations. These can include how easily the threat is detected, the availability of monitoring resources, the potential for distribution before detection, and other factors that influence the strength of measures applied to mitigate the risk. In the end, import restrictions and the processes used to address the risks are often country-specific, addressing the unique perceptions of risk, the resources available, and the societal and political demands. Most countries want safe food. Yet what is considered 'safe' is very different depending on where you live. The tolerances for aflatoxins in food, for example, vary from 30 parts per billion (ppb) to 5 ppb. Aflatoxins are a by-product of fungal infestation of certain foods and a recognized cancer-causing contaminant. The differences in tolerances relate to factors such as consumption habits, societal perceptions of toxins, etc.

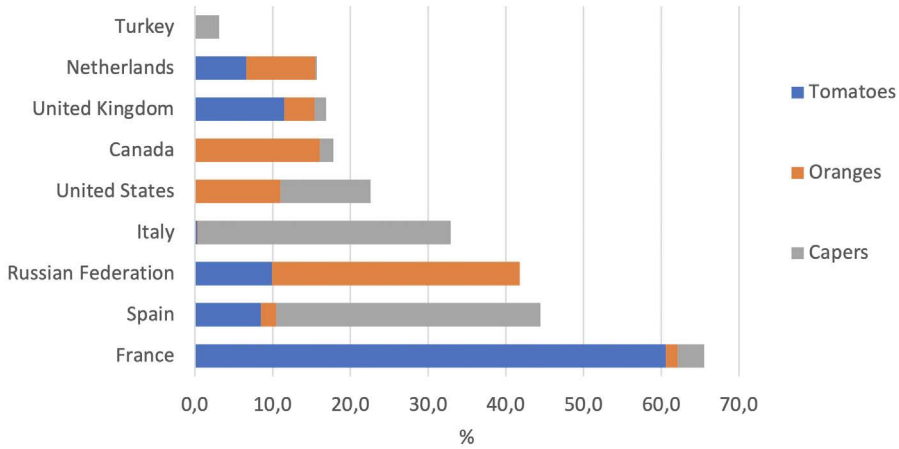
An important question is whether SPS measures are an impediment or a catalyst for trade? A number of authors have suggested that the application of SPS measures can be a disguised trade restriction. A simple analysis of SPS notifications to the World Trade Organization (WTO) shows that notifications have grown six-fold since 1995 (WTO, 2020). This increase in measures regulating trade in food and agricultural commodities can both suppress trade and act as a catalyst. The WTO reported that TBT and SPS measures can be most burdensome for exporters (WTO, 2012). Furthermore, the report stated that more than 94% of SPS measures and 24% of TBT measures affect agricultural trade. Crivelli and Groeschl (2016) found that aggregated SPS measures negatively affected trade by increasing the costs of commodities, but

for those exporters that were able to overcome the costs, increased levels of marketplace confidence in the commodity also led to increases in trade.

The coverage ratio for SPS measures for Moroccan exports is 22%. The most significant of these are: packaging requirements (10.6%), certification requirements (10.3%), restricted use of certain substances in foods and feeds and their contact materials (9.6%), labeling requirements (9.6%), hygienic practices during production (9.5%), microbiological criteria of the final product (9.1%), and inspection requirements (8.5%) (WITS, 2020).

Agricultural crops are a major Moroccan export. Edible roots and vegetables account for close to 5% of Morocco's exports and represented the country's sixth largest export category in 2019 (ITC, 2020). Edible fruits, nuts, and the peel of citrus fruits and melons also contribute about 5% of exports and represented the country's seventh leading export in 2019 (ITC, 2020). Furthermore, news reports have indicated that Moroccan horticultural exports grew by 3% during the COVID-19 crisis. The vast majority of these exports flow to the European Union, particularly France, Spain, and Italy, as well as to the United Kingdom, the United States, and the Russian Federation, among other destinations.

A comparison of the SPS regimes of the current set of Moroccan trading partners allows the impacts of these measures on Moroccan exports to be assessed. In what follows, this chapter looks at tomatoes (fresh and chilled under HS code 0702), which represent 12% of total agricultural exports, oranges (including fresh oranges under HS code 0805100011 and 0805100019; mandarins under HS code 0805100011 and clementines under HS code 0805220000), which represent 7.5% of total agricultural exports, and capers (under HS code 0711909960), which represent 0.5% of total agricultural exports. Figure 9 provides a breakdown of exports by destination.

Figure 9. Moroccan Exports of Tomatoes, Oranges, and Capers

Source: ITC (2020).

A comparison of the import requirements of several of Morocco's main trading partners indicates that the requirements are similar. SPS import requirements to the European Union are harmonized across members, including France, Spain, Italy, and the Netherlands. The United Kingdom too continues to align its SPS import requirements with those of the EU for most commodities. For the commodities reviewed here, countries generally impose requirements that protect against the movement of plant pests, contaminants, and toxins. But as mentioned earlier, with the exception of EU countries, most countries do not impose the same requirements for each commodity. Given that each country assesses the commodity and its potential to distribute pests or contaminants that are of concern specifically to its own environment, human health, agricultural production, and potential damage to its own exports and other factors, the requirements applied to specific export commodities differ by market. The vast geography of the EU necessitates that its measures consider the potential impacts to any of its member states, given the free movement of commodities once inside the union. In general, most countries impose some requirements for tolerances for pests, animal diseases, microbiological contaminants, toxins, additives and other compounds, etc. The list of pests, diseases, contaminants, and in some cases the specific maximum tolerances for compounds adulterating food, vary by country. Countries also often have specific requirements for labeling, which can include identification of the country of origin, nutrition content, date of production, expiration dates, etc. Some trading partners require greater specificity on labeling, such as specific information on the producer to

allow for traceability to origin, should contaminants or adulteration be detected. Trading partners also may impose voluntary or mandatory good-manufacturing practices, or HACCP⁴ production standards.

Regulation of Moroccan tomatoes to prevent the entry of pests differs markedly across importing countries. The U.S. applies restrictions on Moroccan tomatoes to prevent the entry of *Tutaabsoluta*, a tomato leafroller, which is widespread in the Mediterranean region and in greenhouses in Europe. The restrictions apply to seasonal imports that fail to comply with certain criteria, including production of the fruit in an approved pest free area⁵; removal of the stem and calyx, or preclearance by the U.S. Department of Agriculture (USDA), labeling of boxes meeting import requirements, and certification, among other conditions. However, if the fruit is produced in the Provinces of El Jadida, Safi, and Souss-Massa-Draa, additional surveillance and actions to preclude pest movement must be applied by producers and the regulatory authority (United States Department of Agriculture, 2020). Imports of tomatoes to the United States must be accompanied by an official phytosanitary certificate verifying that one of the options for export has been met.

Since 2015, when the United States imported a small volume of Moroccan tomatoes, there have not been any exports to the U.S. Almost 87% of U.S. imports of tomatoes come from Mexico (ITC, 2020). Mexican imports are also subject to phytosanitary measures which include verification of freedom from pests by the competent authority, and a producer declaration that the fruit was inspected by the producer and found free of tomato viruses (United States Department of Agriculture, 2020). The European Union also regulates the entry of tomatoes to prevent the spread of a number of moths including *Neoleucinodeselegantis*, and *Keiferialycopersicella*, which are both found in the Americas. Although the pest is not likely to be found on Moroccan tomato exports, the competent exporting authority must confirm on a phytosanitary certificate that the pest is not present (European Commission, Directorate-General for Health and Food Safety, 2020). Imports by Spain and France represent more 72% of all of Morocco's exports. By contrast, India only regulates the import of tomato seeds to prevent the entry of a number of seed-borne pests and diseases, but the importation of fruits is not regulated by the plant quarantine agency. Canada too regulates tomato imports from Morocco to prevent the entry of

4. Hazard Avoidance Critical Control Point (HACCP) is an internationally recognized food-safety approach in which food manufacturers analyze the production environment to identify where potential safety risks may enter production processes, then develop and implement a documented control plan to mitigate the risks. Record-keeping and monitoring of the HACCP plan is also required.

5. The USDA requires that pest-free areas meet the criteria in International Standard for Phytosanitary Measures No. 4, "Requirements for the establishment of pest free areas." It includes approval of the survey methodology of the exporting country national plant-protection organization by USDA.

Tutaabsoluta. Canada requires that the competent authority of the exporting country certify that the fruit was produced in a pest-free area, produced under a systems approach⁶ approved by Canada, or fumigation treatment of the fruit (Canadian Food Inspection Agency, 2020). Neither India nor Canada import Moroccan tomatoes. In addition to the plant quarantine requirements, each country also imposes tolerances for pesticides and other microbiological and non-microbiological organisms. For example, the United States has tolerances for 170 different chemicals on tomatoes (Bryant Christie, 2020). The EU lists 492 chemicals for which tolerances are specified (European Commission, 2020).

Oranges offer an example of a product for which some countries have very few phytosanitary requirements, while others have more complex requirements even when imported numbers do not differ significantly. The U.S. regulates the import of citrus fruit (oranges, mandarins, and clementines) to prevent the movement of *Ceratitiscapitate*, the Mediterranean fruit fly, which is broadly distributed worldwide (including in much of Africa), but is only found in the State of Hawaii. The pest is widely recognized as a serious economic concern and the U.S. has carried out extensive eradication efforts in citrus production areas (United States Department of Agriculture, 2010). In 2016, the USDA banned the import of oranges from Morocco after the detection of a single Mediterranean fruit fly associated with an import from the Northeast region. A specific arrangement worked out between Morocco and the U.S. allowed imports to resume within a few months with strengthened conditions of entry. Import requirements include: the importer obtaining an import permit, various on-farm and packinghouse conditions, destructive sampling of the fruit prior to export, and cold treatment either prior to export or on arrival, but only at approved ports (United States Department of Agriculture, 2020). The competent authority is required to produce a phytosanitary certificate indicating compliance with the workplan. By contrast, Canada applies no import requirements, while the EU requires a phytosanitary certificate to accompany consignments. The US absorbed 11% of Moroccan exports of oranges in 2019, while 16% were shipped to Canada in the same year, and slightly less to the EU (ITC, 2020).

Although the export of capers is not a significant component of Moroccan trade, the bulk of Moroccan production is exported to Spain and Italy (more than 60% in 2019). Capers provide an interesting example regarding food-safety requirements. Capers are produced by fermenting the fruits of the *Capparis* plant. Caper berries are often used as an accompaniment to meals and are highly sought after in some markets. Caper berries can bring high returns. Babili (2015) suggested that 1 kilogram of capers was worth 25 in the U.S., but also noted that

6. A systems approach is a preventative management approach which combines at least two measures applied during production to prevent the movement of a pest on the end product.

returns are often highest in the end market and that producers were paid very little. The EU is the most significant importer of capers worldwide, and about 20% of its imports come from Morocco. The import of preserved capers to the EU is subject to labeling requirements related to its status as an organic item, origin information, etc. Imports may be inspected at, or following, entry and samples are taken to verify compliance with maximum residue limits (MRLs) for pesticides and freedom from other microbiological and non-microbiological (European Commission, 2020). The EU places the responsibility on food operators to monitor for food contaminants (European Commission, 2005). Turkey is aligning its SPS requirements with those of the EU. The importer is expected to ensure that food complies with safety standards and regulatory authorities validate whether compliance has been met⁷. The Turkish Regulation on Food Hygiene requires imported food to meet the standards for food domestically produced, including that business operators should put in place HACCP (The Republic of Turkey, 2011). Other economies, including the EU, do not require HACCP, but encourage its use and expect the application of safe production and handling practices.

SPS measures can clearly impact trade, but often the most significant limitations are in capacities to comply with requirements. SPS measures applied to Moroccan exports differ by market. In many circumstances, requirements are quite similar. Agricultural imports are often required to be free of contaminants including pests and diseases. Many of the measures applied by importing countries are similar to those applied by Morocco on its own imports. For example, Morocco requires all plant and plant product commodities, with the exceptions of coffee, some grain meals, fruits and vegetables in brine, seaweed and manufactured tobacco, to be accompanied by a certificate issued by the competent authority of the exporting country to verify that the commodity is free of pests and diseases. Similarly, Moroccan Law No. 28-07 on the safety of food products, includes requirements that food imports meet safety and labeling standards. Imported commodities are subject to documentary and physical checks on arrival in Morocco (USDA Foreign Agricultural Service, 2018).

Numerous authors have written on the extent to which border processes affect the efficiency of trade. Inspection, sampling and testing, which are often the hallmarks of SPS measures, are applied both pre-exit by the exporting authority to meet certification requirements, and at arrival by the importing authority.

7. The Turkish Food Codex for example specifies: "food and feed business operators and producers of materials and articles contact with foodstuffs ... shall ensure that foods or feeds satisfy the requirements of this law. ... If a food and feed business operator consider or has reason to believe that a product which it has imported, produced, processed, manufactured or distributed is not in compliance with the food and feed safety requirements, it shall immediately initiate procedures to withdraw the product from the market..." (The Republic of Turkey 2010).

The duration of such procedures is often unpredictable and consequently affects the timing of logistics and often the quality of perishables. The WTO Trade Facilitation Agreement (TFA) focuses on addressing these uncertainties by encouraging transparency, border-agency cooperation, the implementation of risk-based inspection processes, and other cooperation measures.

Automation is an important element in addressing trade inefficiencies. Morocco has implemented the use of electronic certificates for trade in plant products (Global Alliance, 2020). The system, which facilitates the exchange of required electronic certificates between competent authorities, can be a significant driver in reducing the time associated with applying for and collecting paper certificates. Moreover, electronic certificates are sent well in advance of commodity arrival, and therefore can be used by competent authorities to assess risks well in advance of the commodities' arrival onshore, and also to both coordinate border-management activities and identify any scope and extent of required risk-management measures. The communication to the trader of these measures to be taken on arrival also improves their ability to facilitate the movement of commodities, once formalities are completed. Electronic data provided by automation systems and the sharing of data between competent agencies also allow the authorities to implement increased risk-based controls that prioritize interventions based on compliance information, environmental scanning, etc., and to expedite the release of low- and medium-risk commodities (Sela, 2020).

Table 3 shows a breakdown of average AVEs for SPS measures, by HS section and importer, for agri-food products (Ing et al, 2019) for Indonesia, Malaysia, and Vietnam. Across all sections, except for vegetable products, the highest averages are observed for Vietnam, where the highest AVEs for SPS measures were observed in fats and oils and animal products.

Table 3. Average AVEs by Section and Importer [SPS Measures]

HS Section	Indonesia	Malaysia	Vietnam
Animal products	16.1	6.2	17.2
Vegetable products	4.4	5.5	5.1
Fats & Oils	6	18.4	38.9
Food, beverage & tobacco	3.8	4.9	5.5
Simple average	7.6	8.8	16.6

Source: Ing et al (2019).

3. Technical Barriers to Trade (TBT) and other measures imposed by Morocco's Partners

In this section, we look more closely at TBT measures, which are predominantly applied in non-agricultural sectors.

Ing et al (2019) also calculated the AVEs for the main NTMs applied to manufactured products in Indonesia, Malaysia, and Vietnam (Table 4). On average, AVEs for TBT measures in manufacturing for all three countries are relatively equal, but there are stark differences between individual products. In the chemicals sector, the highest average AVE is observed in Indonesia (7.3%). In the textile sector, the highest are in Malaysia (9.4%). In the steel sector (metal products), the highest are in Indonesia (10.3%). In the transport equipment sector, which includes automobiles, the highest average AVE is in Vietnam (12.9%). Cali et al (2021) studied pre-shipment inspections in Indonesia and found that pre-shipment inspections mainly act as an import barrier by reducing competition, raising markup in the output markets, and increasing the cost of sourcing the imported inputs.

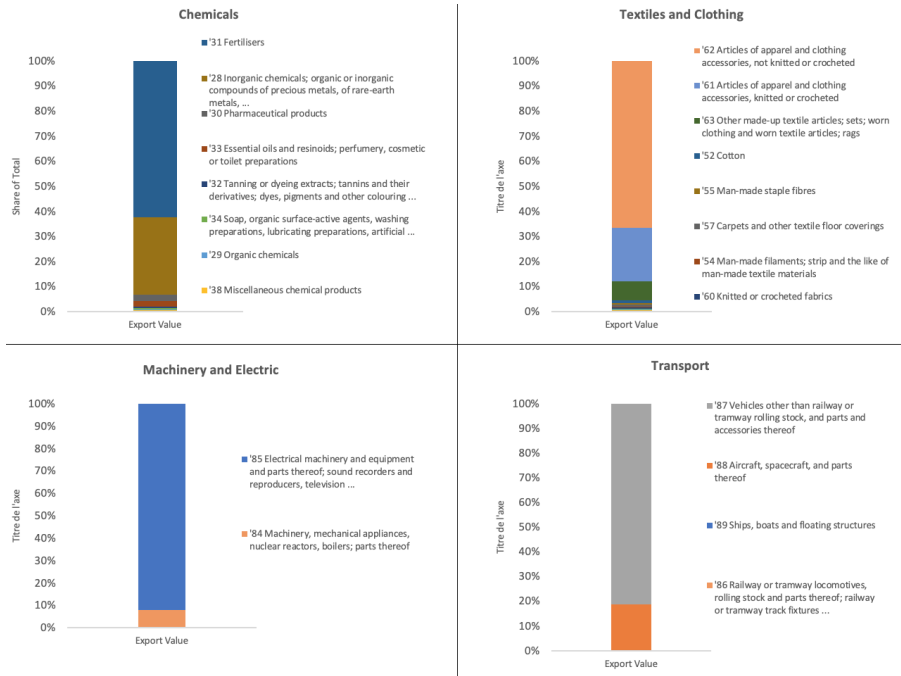
Table 4. Average AVEs by Section and Importer [TBT Measures]

HS Section	Indonesia	Malaysia	Vietnam
Chemicals	7.3	5.6	0.7
Plastics & rubber	5.1	3.1	10.5
Leather	5.7	4.8	-1.4
Textile & apparel	6.9	9.4	7.8
Footwear	5.1	2.1	2
Cement	5	3.9	6
Metals & metal products	10.3	5.1	8.6
Machinery	4.1	7	1.8
Transport equipment	1.5	6.1	12.9
Simple average	5.7	5.2	5.4

Cali et al (2021).

We now look more deeply at the major products exported under each non-agricultural sector category (Figure 10).

Figure 10. Major Moroccan Products Exported by Sector



Source: ITC

Machinery and Electrical Equipment

After agriculture, machinery and electrical equipment is the most significant product group exported by Morocco, mainly electrical machinery and equipment and parts thereof (HS code 85). Over 40% of these exports are ignition wiring sets and other wiring sets for vehicles, aircraft, and ships (HS code 854430). The top partner countries to which Morocco exports machinery and electrical equipment include France, Spain, Italy, Singapore, and the United Kingdom. Table 5 shows the measures reported for ignition wiring sets.

Table 5. TBT Measures Applied to Morocco's Exports of Ignition Wiring Sets and Other Wiring Sets (HS code 854430)

Trading Partner	NTM measures
EU	B700 Product quality, safety or performance requirement B820 Testing requirement B830 Certification requirement B840 Inspection requirement
Singapore	B420 TBT regulations on transport and storage E100 Non-automatic import-licensing procedures other than authorizations covered under SPS and TBT chapters
Indonesia	E320 Prohibition for non-economic reasons
Vietnam	B310 Labeling requirements B490 Production or post-production requirements, n.e.s. B840 Inspection requirement B890 Conformity assessment related to TBT, n.e.s. E320 Prohibition for non-economic reasons

Source: ITC Market access tool.

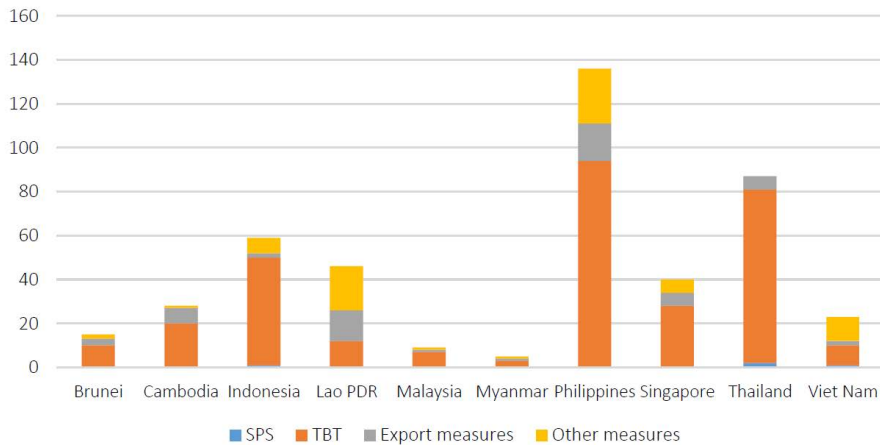
Note: This table is not exhaustive; there may be other significant measures not reported by these countries

According to the U.S. Trade Representative's National Trade Estimate report (USTR, 2022) on foreign trade barriers, Indonesian importers are required to comply with import licensing requirements that impede market access. Importers must also obtain a business identification number and register on the Online Single Submission, a single window system for business license issuance. India has Security and Safety Testing Requirements for Equipment. In September 2017, India's Ministry of Communications required all telegraph equipment to undergo mandatory testing and certification. Under these rules, in 2019 India implemented the Mandatory Testing and Certification for Telecom Equipment procedures, which require local security testing for telecommunications products. India also introduced a policy in 2014 that requires manufacturers to register their electronic and information and communications technology goods and have them certified by laboratories accredited by the Bureau of Indian Standards (BIS), even if they've already been certified by accredited international laboratories (USTR, 2020). According to the USTR, firms exporting to Turkey

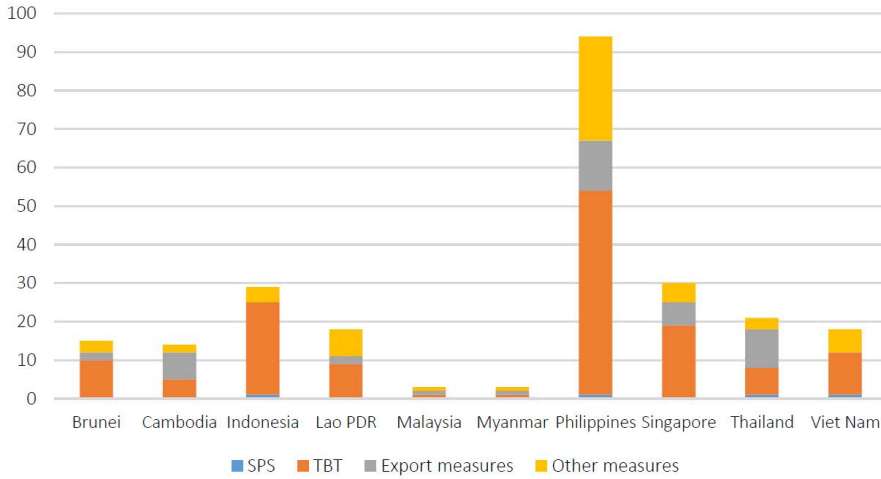
complain about the lack of transparency in Turkey's import licensing system because it results in costly delays, demurrage charges, and other uncertainties that inhibit trade⁸.

Figure 11 shows the number of NTMs applied to the electronics and electrical equipment sector (defined as HS-85) by ASEAN countries by type of measure (Ing et al, 2019). After the Philippines, Thailand and Indonesia have the highest numbers of measures. Malaysia has only nine measures, given its status as a manufacturing hub for electronics. The study also conducted interviews with government and private-sector representatives in Indonesia, Singapore, and Thailand. The listing process for testing labs was perceived to be lengthy (up to six months), and countries often change national standards without the prior notification and transition periods mandated by good regulatory practices and WTO prescriptions.

Figure 11. Number of NTMs in the Electronics and Electrical Equipment Sector in ASEAN Countries



8. Turkey requires import licenses for some agricultural products, and for various products that need aftersales service such as photocopiers, advanced data processing equipment, and diesel generators.

Figure 12. Number of NTMs in the Auto Sector in ASEAN Countries

Source: Ing et al (2019).

Transportation

Top Moroccan exports in the transportation category include cars and other motor vehicles principally designed for the transport of passengers (80% of transportation exports). An analysis of the import requirements for EU countries indicates that requirements are similar as a result of the harmonization across EU members. Table 6 shows the various requirements for the EU and other potential trading partners (as reported by the ITC).

Table 6. TBT Measures Applied to Morocco's Exports of Motor Cars and Other Motor Vehicles Principally Designed for the Transport of Persons (HS code 870322)

Trading Partner	NTM Measures
EU	B310 Labeling requirements B700 Product quality, safety or performance requirement B830 Certification requirement E320 Prohibition for non-economic reasons
Vietnam	B190 Import authorization/licensing related to TBT n.e.s. B310 Labeling requirements B490 Production or post-production requirements, n.e.s. B700 Product-quality, safety or performance requirement B820 Testing requirement B859 Traceability requirements, n.e.s. B890 Conformity assessment related to TBT, n.e.s. C300 Requirement to pass through specified port of customs E100 Non-automatic import-licensing procedures other than authorizations covered under SPS and TBT E320 Prohibition for non-economic reasons F790 Internal taxes and charges levied on imports, n.e.s.
Indonesia	B700 Product-quality, safety or performance requirement B810 Product registration/approval requirement F710 Consumption taxes
India	B140 Authorization requirement for TBT reasons B310 Labeling requirements B320 Marking requirements B330 Packaging requirements B420 TBT regulations on transport and storage B700 Product quality or performance requirement B820 Testing requirement B830 Certification requirement B852 Processing history B859 Traceability requirements, not elsewhere specified. C300 Requirement to pass through specified port of customs E316 Prohibition of used, repaired or remanufactured goods

Source: ITC Market Access tool.

Note: This table is not exhaustive; there may be other significant measures not reported by these countries

In Malaysia, various products related to import-sensitive or strategic industries, principally in the steel, construction equipment, agricultural, mineral, and motor vehicle sectors, are subject to non-automatic import licensing requirements. Malaysia imposes import restrictions on automobiles under the Malaysian National Automotive Policy (NAP), which differentiates between 'national' cars (e.g. domestic automakers Proton and Perodua) and 'non-national' cars, a designation that covers other vehicles produced or assembled in Malaysia, as well as imports. The Malaysian system of approved permits (APs) confers on permit holders the right to import and distribute cars and motorcycles. The AP system is generally considered to be administered in a non-transparent manner. This acts as a cap on the total number of vehicles that can be imported (set at 10% of the domestic market).

Vietnam's 2018 Decree 116/2017/ND-CP tightened conditions for automotive manufacture, assembly, and importation. Importers are required to submit lot-by-lot emission and safety certificates, which are very costly and difficult to implement. Vietnam has also issued additional requirements on vehicle type approvals for automotive parts (tires, side mirrors, headlights, and windshields) used to assemble imported cars. Since 2018 (under Decision 40/2017/QĐ-TTg), Vietnam requires all vehicles with fewer than nine seats to have energy labels, and to conform to minimum energy-efficiency standards. Vietnam rescinded a decree that required lot-by-lot testing and replaced it with a new program that requires autos to be tested by model (USTR, 2020).

Chemicals

Chemicals made up 17% of Morocco's exports in 2019, with fertilizers accounting for 62% of total chemical exports. Table 7 provides a list of import requirements in each market. Vietnam's Ministry of Industry and Trade (MOIT) Circular 05/2014 set out a list of items subject to bans on importation for re-export under Directive 23 of 2012, including chemicals, plastics and plastic waste, and certain types of machinery and equipment.

Table 7. TBT Measures Applied to Morocco's Exports of Fertilizers (HS code 310540).

Trading Partner	NTM Measures
Brazil	SPS requirements (authorization requirement for SPS reasons for importing certain products, authorization requirement for importers for SPS reasons, testing requirement, inspection requirement, origin of materials and parts) B210 Tolerance limits for residues of or contamination by certain substances B220 Restricted use of certain substances B310 Labeling requirements B330 Packaging requirements B700 Product-quality, safety or performance requirement B810 Product registration/approval requirement B820 Testing requirement B830 Certification requirement B840 Inspection requirement E100 Non-automatic import-licensing procedures other than authorizations covered under SPS/TBT
Vietnam	B210 Tolerance limits for residues of or contamination by certain substances B310 Labeling requirements B320 Marking requirements B330 Packaging requirements B420 TBT regulations on transport and storage B700 Product-quality, safety or performance requirement B810 Product registration/approval requirement B820 Testing requirement B840 Inspection requirement B890 Conformity assessment related to TBT, n.e.s. C300 Requirement to pass through specified port of customs C900 Other formalities, n.e.s. E100 Non-automatic import-licensing procedures other than authorizations covered under SPS/TBT
Indonesia	B310 Labeling requirements B410 TBT regulations on production processes B810 Product registration/approval requirement B820 Testing requirement B830 Certification requirement

India	B150 Registration requirement for importers for TBT reasons B210 Tolerance limits for residues of or contamination by certain substances B310 Labeling requirements B330 Packaging requirements B600 Product identity requirement B700 Product quality or performance requirement B859 Traceability requirements, not elsewhere specified.
USA	B830 Certification requirement B840 Inspection requirement B850 Traceability requirements E100 Non-automatic import-licensing procedures other than authorizations covered under SPS/TBT
Turkey	A830 Certification requirement B150 Authorization requirement for importers B830 Certification requirement

Source: ITC Market Access tool.

Note: This table is not exhaustive; there may be other significant measures not reported by these countries

Textiles

Textiles account for 13% of Moroccan exports, of which special woven fabrics, tufted textile fabrics, lace, tapestries, trimmings, embroidery (HS code 58), knitted or crocheted fabrics (HS code 60), and man-made filaments, strip and the like of man-made textile materials (54), account for 65% of total textile exports. Table 8 below lists the import requirements in each of the destination markets for these HS codes.

Table 8. TBT Measures Applied to Morocco's Exports of Textiles and Clothing (HS codes 58, 54 and 60)

Trading Partner	NTM measures
EU	B310 Labeling requirements B820 Testing requirement
Turkey	B140 Authorization requirement for importing certain products B150 Authorization requirement for importers B210 Tolerance limits for residues of or contamination by certain substances B220 Restricted use of certain substances B700 Product quality, safety or performance requirement B830 Certification requirement B840 Inspection requirement B850 Traceability requirements C300 Requirement to pass through specified port of customs C400 Import monitoring, surveillance and automatic licensing measures E211 Global allocation
Indonesia	B859 Traceability requirements, n.e.s. C100 Pre-shipment inspection C900 Other formalities, n.e.s. E100 Non-automatic import-licensing procedures other than authorizations covered under SPS and TBT chapters E112 Licensing for specified use
Vietnam	B310 Labeling requirements E320 Prohibition for non-economic reasons

Source: ITC.

Note: This table is not exhaustive; there may be other significant measures not reported by these countries

In Indonesia, MOT Regulation 87/2015 requires pre-shipment verification for a broad range of products, including textiles. Verification is done by designated companies (known as 'surveyors') at the importer's expense and impedes imports. Moreover, Indonesia has yet to notify the WTO of these measures as indicated by the WTO Agreement on Pre-shipment Inspection, as of the end of 2019 (USTR, 2020).

4. Private Sector Views

Ing et al (2019) summarized the International Trade Centre (ITC) NTM business surveys in a number of ASEAN countries (Table 9). One important finding is that the NTMs most frequently flagged by respondents are not necessarily those with the highest frequency. For instance, while SPS and TBT measures have high frequency ratios in Indonesia, Thailand, and Cambodia, it is pre-shipment inspection (PSI), which covers only 2.6% of imports, which is most frequently signaled by the private sector as a burdensome measure. Another important finding is that procedural obstacles severely impact businesses, but these are not caught in official NTM inventories. In Cambodia, Indonesia, and the Philippines, delays are cited as the main procedural obstacles related to NTMs (57% in Cambodia, 28% in Indonesia, and 26% in the Philippines). Arbitrary behavior by officials is flagged as a concern by a third of firms operating in Thailand. Other procedural obstacles cited include requests for informal payments (i.e. bribery), excessive documentary and procedural burdens, and high fees.

Table 9. NTMs & Procedural Obstacles in Select ASEAN Countries

Country	Cambodia	Indonesia	the Philippines	Thailand	
Year of observation	2013	2013	2014-2015	2014	
# of firms surveyed	502	953	1,149	1,067	
Composition of sample					
Micro	31%	1%	19%	14%	
Small business	41%	10%	50%	30%	
Medium-sized business	6%	24%	10%	28%	
Large business	13%	60%	15%	26%	
Unspecified	9%	5%	6%	2%	
% firms affected by NTMs	69%	37%	73%	38%	
Rank					
NTM type by importance	1	PSI (57%)	PSI (59%)	Customs (54%)	ROO (35%)
	2	Conf. Assess. (16%)	QRs (14%)	Cust val. (13%)	PSI (23%)
	3	QRs (11%)	Conf. Assess. (11%)	Tech. auth. (9%)	Price controls (13%)
	4	Other (16%)	Other (16%)	Other (24%)	Other (29%)
Procedural obstacles by importance	1	Delays (57%)	Delays (28%)	Delays (26%)	Arbitrariness (34%)
	2	Inf. Payments (19%)	Arbitrariness (25%)	Excess. Proc. (20%)	Delays (22%)
	3	Admin burden (10%)	Excess. Charges (19%)	Excess. Doc. (18%)	Inf. Payments (15%)
	4	Other (14%)	Other (28%)	Other (36%)	Other (29%)

NTMs = non-tariff measures; NTB = non-tariff barriers; PSI = pre-shipment inspection; ROO = rules of origin; QRs = quantitative restriction; Val: customs valuation; Conf. Assess: conformity assessment; Tech. auth.: technical authorization; Excess. Proc.: Excessive procedures (too many windows); Excess. Doc: excessive documentation burden; Inf. payments: Informal payments.

Source: ITC (2014, 2016, 2016a, 2017).

Source: Ing et al, 2019.

Indonesia is a potential market for Morocco given that its main import sectors include chemicals, non-electrical machinery, office machines, telecommunications equipment, and automotive products. Indonesia also imports products that serve as inputs for industrial processes, including chemical polymers for the plastics industry, and cotton for textiles. Results from the 2012 ITC survey of Indonesian importers revealed that the greatest impediment to import activities was pre-shipment inspection and other entry formalities. Importing companies reported major difficulties with inspections and other entry formalities, which accounted for 59% of the NTM cases reported domestically. Under Indonesian Ministry of Trade regulations, over 500 products are required to undergo pre-shipment inspection, which is done by government-approved surveyors at the loading port. Other measures companies found restrictive included quality control measures (14%), conformity assessment (11%), and technical requirements (10%).

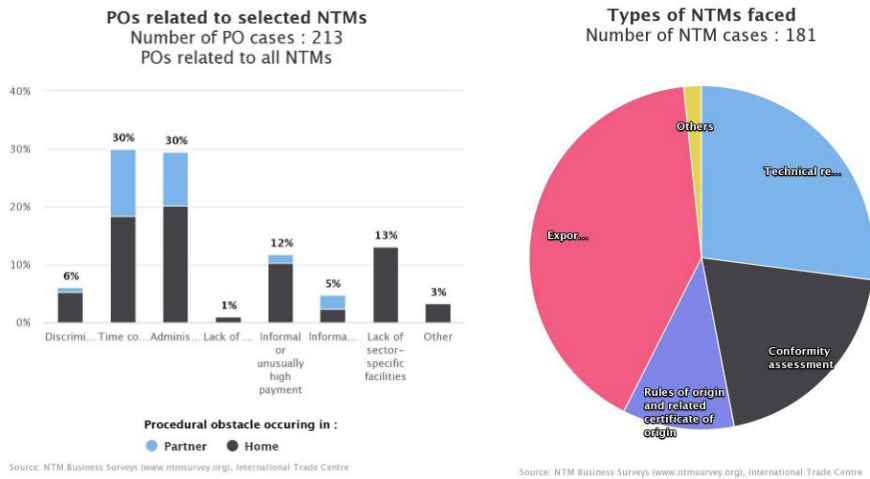
Internal measures affecting Morocco's Exports

Most SPS and TBT requirements are established by importing countries based on technical justifications in an effort to protect health, the environment, or the economy. They generally pursue legitimate objectives and are applied equally to importers and to local producers. The problem is that firms in many exporting countries, including Morocco, do not always have the capacity or financial means to meet such requirements, and have inadequate procedures in place to meet such requirements. This often results in exporters being unable to be price competitive in the marketplace and/or to provide a quality product. Moreover, bottlenecks might originate in the approach taken by the certifying body. For example, having services appropriately close to importers is often an issue (usually resulting in delays to get certification), mandatory standards where the importing country does not impose a requirement, inadequate testing or testing that is not sufficient for the importing market. Differences in interpretation of requirements, particularly differences between private and SPS standards, can also be an issue.

It is thus very important to differentiate between import requirements, export requirements, and procedural issues. Import requirements are established by importing countries to meet safety, security, and consumer protection needs and objectives. Some of these may of course be disguised barriers to trade but teasing these out is complicated. Some export requirements are imposed to support export competitiveness (e.g. requirements that support access to a market). But some may erect unnecessary barriers as they are mandatory standards (required by Standards Bureaux often) that are applied to the commodity rather than to commodities moving to specific markets. Often 'how'

export/import procedures are put in place constitutes the real barrier, rather than the requirements themselves (the ‘how it’s done’ as opposed to the ‘what is required’). This distinction is important as often the fix is achieved by addressing the ‘how’ in negotiated bilateral/multilateral agreements, rather than the ‘what’.

Figure 13. Types of Procedural Obstacles Related to NTMs Faced by Moroccan Exporters



Source: ITC NTM Business Surveys (2012).

Morocco has usually opted, since the 1980s, for policies of trade openness. And since the 2000s, the Kingdom has adopted a trade policy geared towards exports, considered as an important lever for growth and development. In this context, a set of export facilitation measures have been taken by the public authorities. However, a number of export-restriction measures remain. Such measures can be classified into three categories:

a. Prohibitions and Quantitative Restrictions

Article 2 of the decree of the Minister of Commerce number 1308-94, as amended, specifies that the list of goods of Moroccan origin subject to quantitative export restriction measures, and which are subject to export licenses, is set out in Annex II of the decree. These include, for example, saffron bulbs, barley, common wheat groats and semolina, seeds of almonds and argan trees, and raw seaweed.

More recently, since the declaration of the state of health emergency, the Moroccan government has banned the export of medical protective masks.

b. Compliance

This category includes goods subject to government control prior to export. These are agricultural and agro-food products (controls carried out by ONSSA, Autonomous Establishment of Export Control and Coordination EACCE), industrial products (controls carried out by technical and industrial centers), pharmaceutical and cosmetic products (controls carried out by Ministry of Health), and handicraft products (controls carried out by the Ministry of Crafts, Social and Solidarity Economy). These controls take the form of an application for export certification, the health certificate of origin, and certificates of compliance with the requirements of the country of destination. The establishment of export-control systems in the form of technical, sanitary, or phytosanitary conformity of exported products, aims, according to the Ministry of Trade, to verify the conformity of the products with the destination market while protecting the image of Moroccan products.

c. NTMs on imports⁹ Countries imposing NTMs may end up undermining their own competitiveness by making it difficult for domestic producers and exporters to access critical inputs in a timely fashion. The review of NTMs requires an institutional mechanism that can bring together all concerned parties to take into account all policy objectives and discuss the costs and benefits of existing measures. This mechanism should ensure coordination between the ministerial entities that issue regulations related to NTMs, and between them and all concerned parties, including the private sector, according to clearly established modalities and procedures. It should also build on existing frameworks and not add bureaucratic layers and procedures that would make the process ineffective. In Morocco, two structures exist to channel dialogue between national authorities and the private sector (WTO, 2009). The Ministry of Foreign Trade is assisted by the *Commission consultative des importations* (CCI), composed of representatives of several ministries, customs, and representatives of professional associations, the Federation of Chambers of Commerce, Industry and Services, the Federation of Chambers of Agriculture, and the Federation of Chambers of Handicrafts, and deals with tariff policy and contingent protection. The *Conseil national du commerce extérieur* (CNCE), established in 1996, is composed of representatives of the Government and economic operators, and deals with foreign trade relations and competitiveness. Although some progress has been achieved in reducing regulatory interference in international trade, none of these structures has emerged as a powerful reform driver.

9. See Mariem Malouche, "Institutional Assessment for Good Governance over Trade Regulations (Non-Tariff Measures)". World Bank Policy Note.

Progress has been made in terms of transparency of NTMs applied by different authorities issuing regulations on NTMs. However, the diverse, dense, and multidisciplinary nature of such measures always carries the risk that they will have an adverse economic impact on commercial transactions. A thorough review of Morocco's existing review mechanisms indicates that Morocco does not have a consultative mechanism for all NTMs that could unite the review process for all measures that may affect trade competitiveness by being unnecessarily trade-restrictive.

IV. Dealing with NTMs: Negotiation Approaches and recommendations

According to Augier et al (2012), in countries that are the main outlets for products from the Middle East and North Africa (MENA) region, in particular the countries of the EU, surveys of exporters regularly point to SPS regulations as the main obstacle to effective market access. However, SPS measures have strong non-trade justifications and are often considered too sensitive to be brought to any negotiation table. This section provides insights on how best to deal with NTMs.

1. Best practices in negotiating trade agreements: examples from the USMCA

Nui et al (2019) concluded that the proliferation of multilateral and bilateral trade agreements has led to a decline in tariffs, but that governments are increasingly using NTMs to administer trade policy. Ensuring that NTMs do not become a trade burden is increasingly important when negotiating trade agreements.. Although in many cases countries apply the same standards to both domestic and imported goods, the processes by which countries validate compliance of imports can raise costs, making them uncompetitive or reducing their quality as a result of transport delays. Furthermore, standards are often not harmonized across markets, increasing the costs of production for those producers that want to access multiple markets.

The preferential trade agreement between the United States of America, the United Mexican States, and Canada (USMCA) provides a good example of how a trade agreement can effectively balance consumer and environmental protection concerns with trade-facilitation objectives. The agreement includes

specific chapters on trade facilitation (Chapter 7), on sanitary and phytosanitary measures (Chapter 9) and on technical barriers to trade (Chapter 11). Although Chapter 7 for the most part focuses on customs-related measures, the chapter reinforces the requirements of the World Trade Organization's Trade Facilitation Agreement (TFA). The chapter strengthens the transparency provisions of the TFA, stating that the Parties should make trade information publicly available on the internet, provide an enquiry point, and establish a mechanism to communicate and consult with traders. The chapter also includes prescriptive language for expediting the release of express shipments including by specifying that "... *these shipments, under normal circumstances, are to be released immediately after arrival, provided that all required documentation and data are submitted*". The agreement also raises the de-minimis value for shipments of Canada and Mexico, allowing for a greater quantity of low-value shipments to be expedited from sender to receiver in minimal time. Given the substantial increases in electronic commerce over the past 20 years, as highlighted by the fivefold increase in postal shipments in the U.S. (Hufbauer, 2018), Burfisher et al (2019) concluded that the change in the de-minimis value would support in particular small and medium sized businesses and online retailers, which are unable to absorb procedural border costs. The chapter also prescribes the use of electronic documents and single windows. The implementation of automation improves the efficiency of government services, reduces costs faced by traders associated with submitting paper documentation (including time delays in submitting applications, collecting permits, etc.), and reduces the incidence of fraud.

Chapter 9 of the USMCA has a number of provisions that go beyond the measures prescribed in the WTO's SPS Agreement. The chapter includes more prescriptive language than specified in the SPS Agreement, including that the Parties should collaborate and consult prior to establishing measures, and that assessment and decision-making processes should be transparent, and calls for applied measures to be compatible. Specifically, some of the agreement's wording includes:

- *"On request of the exporting Party, the importing Party shall inform the exporting Party of the status of a request to authorize trade, including the status of any risk assessment or other evaluation the Party requires to authorize trade, and of any delay that occurs during the process."*
- *"Each Party shall consider, as a risk management option, taking no measure if that would achieve the Party's appropriate level of protection."*
- *"If an importing Party requires a risk assessment to evaluate a request from an exporting Party to authorize importation of a good of that exporting*

Party, the importing Party shall provide, on request of the exporting Party, an explanation of the information required for the risk assessment. On receipt of the requisite information from the exporting Party, the importing Party shall endeavor to facilitate the evaluation of the request for authorization by scheduling work on this request in accordance with the procedures, policies, resources, laws, and regulations of the importing Party.... On request of the exporting Party, the importing Party shall inform the exporting Party of the status of a request to authorize trade, including the status of any risk assessment or other evaluation the Party requires to authorize trade, and of any delay that occurs during the process.... If the importing Party, as a result of a risk assessment, adopts a sanitary or phytosanitary measure that may facilitate trade between the Parties, the importing Party shall implement the measure without undue delay.”

- *“To reduce unnecessary obstacles to trade, each Party shall endeavor to enhance the compatibility of its sanitary and phytosanitary measures with the sanitary and phytosanitary measures of the other Parties, provided that doing so does not reduce each Party’s appropriate level of protection. In so doing, each Party: (a) is encouraged to consider relevant actual or proposed sanitary or phytosanitary measures of the other Parties in the development, modification, or adoption of their sanitary or phytosanitary measures; and (b) shall have the objective, among others, of making its sanitary and phytosanitary measures equivalent or, if appropriate, identical to those of the other Parties, but only to the extent that doing either does not reduce the Party’s appropriate level of protection.... An importing Party shall recognize the equivalence of a sanitary or phytosanitary measure, group of measures, or system, even if the measure, group of measures, or system differs from its own, if the exporting Party objectively demonstrates to the importing Party that the exporting Party’s measure achieves the importing Party’s appropriate level of protection, taking into account outcomes that the exporting Party’s measure, group of measures, or system achieves.”*

The USMCA also features specific provisions related to border clearance to further facilitate trade. As noted above, the protections applied by SPS measures often do not create bottlenecks that result in increased trade costs. Often the procedural activities of border agencies are the most significant burden. To address these, the USMCA includes the following clauses:

- *“Each Party shall ensure that its import checks are based on the risks associated with importations, and that its import checks are carried out without undue delay.”*

- “A Party shall make available to another Party, on request, information on its import procedures and its basis for determining the nature and frequency of import checks, including the factors it considers to determine the risks associated with importations.”
- “A Party shall make available to another Party, on request, information on its import procedures and its basis for determining the nature and frequency of import checks, including the factors it considers to determine the risks associated with importations.... use criteria for selecting facilities at which an import check is conducted:(i) so that the location does not cause unnecessary inconvenience to an applicant or its agent, and (ii) so that the integrity of the good is preserved, except for the individual specimens or samples obtained pursuant to the requirements referred to in subparagraph (a)”.

The measures prescribed above clearly favor a trade-facilitation approach while still recognizing the importance of border formalities. The prescriptions also create greater predictability in logistics by increasing the transparency of procedures applied by border officials.

Some have argued that the USMCA is tilted in favor of trade, and caution that provisions may compromise safety. Although the measures in the USMCA are careful to emphasize sovereignty and establishment of measures on the basis of an appropriate level of protection, Labonté et al (2019) suggested that the USMCA could weaken public health policy¹⁰. Therefore, caution should be exercised when increasing the prescriptiveness of bilateral or multilateral arrangements with respect to TBT and SPS measures. Labonté et al (2019) noted that the USMCA goes beyond the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which also contains SPS provisions, though they are less detailed than those found in the USMCA. The CPTPP also includes provisions on transparency in decision-making and risk analysis, and calls for consultations, but these are not as rigid. For example, with respect to equivalence, the CPTPP specifies that: “*The importing Party shall recognize the equivalence of a sanitary or phytosanitary measure if the exporting Party objectively demonstrates to the importing Party that the exporting Party’s measure: (a) achieves the same level of protection as the importing Party’s measure; or (b) has the same effect in achieving the objective as the importing Party’s measure.*”

10. Labonte et al (2019) argued that the agreement is weighted toward regulators considering corporate interests to the detriment of public protection. The agreement also obligates cooperation between the parties, while the economic power of the U.S. is significantly stronger than the other parties, which may influence the regulatory decisions of the weaker.

Box 2. Best practices in negotiating techniques to address NTMs

A review of the practice of addressing TBT and SPS measures in preferential trade agreements (PTAs) suggests these agreements should include, where feasible, a number of important best-practice provisions to ensure that agreements converge with, and support, the multilateral trading system (Stoler, 2011):

1. Adopt international standards. The parties to a PTA should undertake to use international standards whenever possible, as doing so guarantees a high level of protection in the integrated market and makes it easier for third parties to trade in that market.

2. Limit harmonization to essential health and safety standards. If the parties to a PTA decide on an approach of harmonizing their standards and conformity assessment procedures, they should accept that it might be necessary to limit harmonization to essential health and safety standards, and rely on mutual recognition and equivalence techniques for other areas.

3. Plan for technical assistance and capacity-building for the less developed partners. If one partner is less developed than the other, the PTA should incorporate technical assistance and capacity-building measures to assist the institutions and exporters of the developing-country partner. In negotiating a PTA, governments should recognize that deeper integration and the resolution of standards-related problems will take time and require considerable bilateral work. A PTA that aims to be effective should incorporate bilateral institutions (committees and the like) that have a mandate to deal with standards-related questions over time through harmonization, equivalence, or mutual recognition techniques. Ideally, the institutions established in the PTA should also be capable of helping to resolve trade-related problems arising out of exporters' need to comply with private standards in an importing country's market.

4. Eliminate duplication for the same products. If technical regulations and conformity assessment procedures cannot be harmonized, it is important for the purposes of the PTA that the parties work to eliminate duplicate or multiple measures or mandatory tests for the same product. This is particularly crucial for small and medium-size enterprises that cannot afford the high cost of meeting differing regulations and testing regimes. Mutual recognition agreements are important tools in this respect.

5. Consult with partners on new regulations. Transparency regarding SPS standards in international trade is very important for businesses and consumers. PTA partners should consider enacting WTO+ notification obligations and a commitment not to implement any technical regulation or SPS measure, until it has been published and comments from PTA partners have been taken into account.

6. Adopt a work program. The PTA should be a living agreement with a commitment to a work plan or to prioritization of problem resolution through harmonization, mutual recognition, equivalence measures, and other policy tools that enable elimination or mitigation of trade-related problems over time. Ideally, the work program should also be capable of addressing problems relating to compliance with private standards.

7. Ensure that PTA provisions on TBT and SPS matters are legally binding. Through a judicious combination of soft and hard law, the agreement should be negotiated to provide a pathway that permits an evolution and deepening of integration over time by allowing the gradual resolution of TBT and SPS issues in the bilateral relationship. Such a pathway should be considered an integral part of any PTA that aims to deal effectively with standards, certification, and conformity-assessment problems. Eventual recourse to the PTA dispute-settlement provisions should be an option, in addition to recourse to the WTO Dispute Settlement Understanding.

8. Commit to open regionalism. PTA parties should agree to an overall commitment whereby technical regulations and conformity assessment procedures are always applied on a national-treatment basis. Third parties whose technical regulations and conformity assessment procedures can be shown to be equivalent to the level agreed by the PTA partners should be permitted to benefit from the arrangements between the partners. A commitment to open regionalism would help to ensure that PTAs support the multilateral system.

Source: Cadot et al (2012), Streamlining Non-Tariff Measures : A Toolkit for Policy Makers.

2. Policy Implications

Given that most NTMs are in place for legitimate public policy reasons, it is important for Morocco to put in place a proactive and comprehensive strategy to limit the negative consequences of NTMs for the performance of its exporting firms. Two categories of actions could be considered: actions to be adopted by the public sector, and others to be undertaken by the private sector (federations, associations, and companies). The two sets of actions should work together to better respond to the challenges raised by NTMs:

- **Strengthen the capacity of Economic Advisers and/or evaluate the role of ‘Customs Attachés’ in Moroccan embassies located in key export markets:** While some NTMs are easily identifiable by Moroccan exporting firms, others may be difficult to detect, or might be applied arbitrarily, such as customs value or rules of origin. The mobilization of qualified economic advisers in Moroccan embassies, or the creation of a position of ‘customs attaché’ could assist exporters in carrying out these procedures, and would facilitate coordination with national customs authorities. Recourse to customs attachés is applied by several countries, including France and Canada. Drawing key lessons from their experience could be most useful.
- **Create an Integrated National Data Mechanism to monitor NTMs:** Establishing a national mechanism for the collection, analysis and reporting of data on NTMs is critical. The data collected from international institutions, much of which tends to be outdated given constant policy changes governing NTMs, needs to be supplemented by national inputs and adapted to the national context of Moroccan companies. Such a mechanism, which would involve both the public and private sectors, could have two bases: data on NTMs in the markets of Morocco’s traditional partners, and data on NTMs in potential new markets, especially countries with which Morocco is considering the negotiation of new preferential trade agreements.
- **Removing domestic barriers:** A study conducted by the International Trade Center in 2012 showed that one third of NTMs faced by Moroccan exporters were of domestic origin. NTM streamlining on the home front involves three tasks: (a) data transparency through the collection, updating, analysis, and dissemination of information on Moroccan NTMs. The government should make such updates mandatory and set-up a trade portal to enhance transparency for a better business environment for importers and exporters; (b) an effective institutional mechanism to review existing measures through a public-private inter-ministerial committee to lead consultations and promote coordination among various stakeholders; (c) adopting a work program to review NTMs and make recommendations to

relevant line ministries, to improve implementation procedures for exports (Cadot et al, 2012).

- **Take into account the specificities of NTMs applied by developing countries:** NTMs are applied by both developed and developing countries. However, unlike developed countries, NTMs applied by developing countries are sometimes random and result from unduly complex administrative procedures. Government action could help the private sector better address such NTMs, including in the context of implementing PTAs such as the African Continental Free Trade Area.
- **Develop a legal strategy to combat abusive NTMs:** NTMs should be designed to pursue legitimate public policy objectives and should be applied equally to foreign exporters and local producers. However, while the majority of NTMs comply with WTO rules, some measures are applied in a WTO-inconsistent manner and as such may constitute genuine barriers to trade. Diplomatic dialogue can play a positive role in eliminating such measures. However, recourse to formal dispute-settlement procedures, whether at the level of PTAs or at the WTO, may be unavoidable in certain situations. For this reason, it is important for Morocco to develop a comprehensive legal strategy to combat NTMs that are inappropriately applied to Moroccan exporters. Such a strategy could be pursued through the WTO Dispute Settlement Body, under PTAs, or through local courts in partner countries.
- **Establish a dedicated NTM Division within the Ministry of Industry and Trade:** Many public institutions in Morocco are concerned with NTMs (e.g. Ministère de l'Industrie et du Commerce (MIC), Office National de Sécurité Sanitaire des Produits Alimentaires (ONSSA), Société Marocaine d'Assurance à l'exportation (SMAEX), Etablissement Autonome de Contrôle et de Coordination des Exportations (EACCE) etc.). The harmonization of public action and its coordination with private sector action is necessary. This function should be taken care of by the Trade Ministry and the export promotion agency, which reports to the same minister.
- **Help the private sector to strengthen its own capacities to adapt to the international trading environment.** It is necessary to carry out sustained training of private sector operators on NTMs, and to carry out sensitization of operators on the use of NTMs and their impacts on foreign trade and, above all, to distinguish between justified non-tariff measures and disguised or disproportionate non-tariff barriers. Training/awareness programs should be considered in a national environment marked by Morocco's commitment to a process of structural transformation of its economy, and the clarification of the role NTMs can play in supporting the Industrial Acceleration Plan and the Green Morocco Plan.

- **Monitor the private sector's development and ownership of standards.** Many NTMs, especially those relating to standards, are today emerging from the private sector and consumer associations. This makes it increasingly difficult to challenge their legal basis under treaty-based instruments governing state conduct. Considerations related to environmental protection, the preservation of public health or even ethics and human rights could constitute criteria influencing consumer choices. The Moroccan private sector needs to be fully informed about how changes in NTMs will affect their business operations, at home and abroad, and should be able to gain a better sense of the compliance costs attached to new production, marketing, and consumption standards.
- **Some recommendations for the private sector/industry associations:** Create a commission or sub-committee specifically dedicated to NTMs within the General Confederation of Moroccan Enterprises (CGEM), which already has a commission in charge of Preferential Trade Agreements. An early warning system in confederations and professional associations could be established to collect complaints from operators, analyze the NTMs in question, and mobilize the competent state services.
- **Further analysis.** More research on NTMs imposed by Morocco on intermediate inputs could be useful in case they are also hurting downstream producers. This will provide a more detailed view of the levels of trade restrictiveness in Morocco, and can provide useful recommendations for policymakers. Furthermore, research by Cali et al (2021) has underscored the importance of moving beyond the aggregate NTM variables that are more readily available, and moving towards analysis of the individual measures, because of the large differences in the economic effects of NTMs. This would directly inform the trade policy debate and enrich policy recommendations.

Concluding Remarks

This chapter was written in response to a request from the Government of Morocco to provide a descriptive analysis of the various NTMs faced by Moroccan exporters abroad. Given the broad scope of this chapter, the methodology used was based on inventory measures, i.e. frequency and coverage ratios which enable cross-country comparisons. However, these indicators do not show whether NTMs are targeted at protecting domestic industries. The trade restrictiveness of most NTMs can only be assessed on a case-by-case basis, depending on the justifications for them, but also in light of implementation procedures. In addition, estimating the trade impact of NTMs in a particular industry of interest could be explored in further research, using either the price-gap method/quantitative-based estimate, or modeling techniques including gravity models.

Many NTMs are pro forma and have little trade effect, while others can exert significant impacts and are unlikely to be negotiated away because they are tied to general regulatory schemes. Qualitative information from exporters on what their concerns are, and in which markets, is often more useful in practice. While existing research provides some estimates, qualitative information from the private sector is key. Active consultation with stakeholders (private sector, industry groups, line ministries), and detailed and structured firm surveys, are needed to provide more concrete recommendations that are market- and commodity-specific.

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7

DIGITAL TRADE RULES: CURRENT LANDSCAPE IN MOROCCO AND POLICY OPTIONS FOR DEVELOPING COUNTRIES

Martin Molinuevo, Lillyana Daza Jaller & Pierre Sauvé

I. Introduction

Digital trade offers the potential to boost international trade and to multiply the economic and social benefits it brings through two main channels. First, digital trade can increase exports of goods and services and promote diversification by allowing traders to tap into new markets, expand the export basket of both traditional and digital goods and services, increase the number of exporters, and develop closer ties with regional and global value chains. Second, digital trade increases competitiveness by reducing the costs of goods and services, including of input costs for domestic firms, and by expanding variety.

The digitization of the global economy has significantly reduced trade costs, leading to a marked increase in cross-border trade. Digitized transactions already account for over 15% of global GDP (UNCTAD, 2019). The World Trade Organization estimated that new technologies have the potential to increase trade by up to 34%, and that developing countries' aggregate share of global trade could grow to 57% by 2030 (WTO, 2018). However, the WTO highlighted the need for international cooperation to ensure that the expansion of digital trade drives inclusive and sustainable development. Studies have shown

that the benefits of digitization are felt more strongly by traditional brick-and-mortar businesses (Ashton-Hart, 2020). A reduction in transaction times and costs has led to more efficient trade in goods. Nevertheless, digital services have an inherent advantage, as proximity (distance) is not as relevant as for trade in physical goods. Furthermore, services can serve as a key driver of exports.

Technological advances have increased vastly the tradability of services in recent years. Information technology (IT) allows for the digitalization of services, facilitating storability and transmission across borders, and reducing the need for producers to be near consumers. World exports of IT-related services grew by 70% between 2012 and 2019, to reach 10% of total cross-border services exports (UNCTAD, 2020a). IT-enabled services (ITES) refer to individual business processes that can be de-localized and delivered remotely through digital means. A firm can identify and separate these services from its main business line and source them from another firm specialized in such activities. ‘Outsourcing’ refers to the acquisition of such services from an outside firm, while ‘offshoring’ points to services traded internationally.

The wide range of different goods and services that can be traded electronically (Box 1), together with the novel nature of the technologies that allow for these transactions, helps explain the scattered nature of digital trade governance (Daza Jaller et al, 2020). The regulation of digital markets is in most country settings a patchwork of regulatory solutions found in different policy areas. A conducive regulatory framework in each of these policy areas is necessary for vibrant digital markets, and a host of restrictive measures may undermine digital trade.

Box 1. Defining concepts

Observing the multiple types of transactions that occur in the realm of e-trade, there are at least four different categories: the Internet both facilitates trade in ‘traditional’ goods and services (‘traditional e-commerce’), and provides a platform for trading digitally produced, delivered, and consumed goods and services (‘digitally traded’).

The figure below illustrates trade in digital goods and services in quadrants III and IV, respectively. Business reality, especially in the digital environment, however, often blurs such conceptual distinctions. Software, for example, has long been traded as a merchandise (embodied in the shipping of physical media such as floppy disks or CDs), but is currently often provided as a service, based on a subscription fee, that includes the right to updates, technical support, and ancillary digital products. Similarly,

some services, such as IT consumer support, can blur the line between ‘traditional’ and ‘digitally traded’ services, reflected in quadrants I and IV. Finally, some digital services can be used by final consumers or serve as inputs for other businesses, further blurring distinctions between B2C and B2B activities.

	Goods	Services
Traditional e-commerce	<p>II</p> <p><i>Jumia</i> <i>ebay</i> <i>Amazon (merchandise)</i> <i>Alibaba</i></p>	<p>I</p> <p><i>E-lance</i> <i>Freelancer</i> <i>Professional services</i> <i>BPO – KPO</i> <i>E-banking</i> <i>News / information</i></p>
Digitally traded	<p>III</p> <p><i>App stores (software, music, video, mobile apps)</i> <i>Amazon (e-books, video)</i> <i>3-D printed goods?</i></p>	<p>IV</p> <p><i>PayPal</i> <i>Google Ads</i> <i>E-medicine</i> <i>IT outsourcing</i> <i>Amazon Web Services</i> <i>AI / data analytics</i> <i>Social media</i></p>

The difference between traditional e-commerce and digital trade has further practical implications, notably for collecting statistics: e-commerce goods transactions are normally captured by customs authorities because they cross borders in the form of parcels, and fall under the goods section of a country’s trade balance. However, digital products such as software or an e-book should in principle also be captured as traded goods, but the fact that they do not cross physical borders because they are digitally delivered means customs information will not be available, and such information should be sought elsewhere—e.g. in the international payments data for goods and services, as recorded by the central banks. More importantly, the manifold expressions of e-trade call for differentiated policy responses: the logistical challenges of international parcel shipping faced by online retailers are not necessarily relevant to traders of digital goods and services, who, instead, may be much more concerned with intellectual property rights and contract enforcement issues.

Source: (Andjelkovic and Molinuevo, 2019).

Trade policy and trade agreements can play an essential role in fostering digital trade. Trade agreements can be effective in fostering a level playing field for trade and investment, including in the digital sector, by reducing legal and regulatory barriers to international flows of goods and services, and narrowing obstacles to the establishment of foreign firms. Trade agreements can also foster regulatory cooperation by setting out principles of good regulatory governance that promote and facilitate trade by reducing the cost of cross-border transactions. Modern trade agreements can promote digital trade by addressing formal restrictions to international transactions or barriers to digital services, and by fostering a sound and coherent regulatory environment that safeguards public policy concerns, enhances trust in digital markets, and reduces regulatory costs for digital business.

This chapter explores the role that the Kingdom of Morocco could play in fostering international rules for digital trade. We pay particular attention to the African Continental Free Trade Agreement (AfCFTA), and the approach and disciplines it could adopt on a potential AfCFTA E-Commerce Protocol or equivalent instrument, an area in which Morocco has signaled a willingness to take on a leadership role. The focus is put on an ambitious continental agreement that can reduce regulatory barriers but, more importantly, guide and support the efforts of African countries to offer a solid framework for digital trade, while recognizing the challenging policy matters it touches on, and the inherent difficulty of adopting comprehensive rules in a highly dynamic and fast-moving environment, such as that of digital technologies.

Following a general introduction, the second section reviews the context of Morocco's digital sector, including the progress and challenges faced in three essential determinants of digital trade, namely connectivity, skills, and human resources, and the legal and regulatory framework for the digital sector. The third section presents the trade agreements and negotiating forums most relevant to digital trade, particularly in Africa. The fourth section reviews the provisions found in chapters related to digital trade or e-commerce in recent trade agreements. The fifth and final section advances specific recommendations on the possible scope of an AfCFTA e-commerce Protocol, both in terms of substantial disciplines, and flexibility and options for international cooperation.

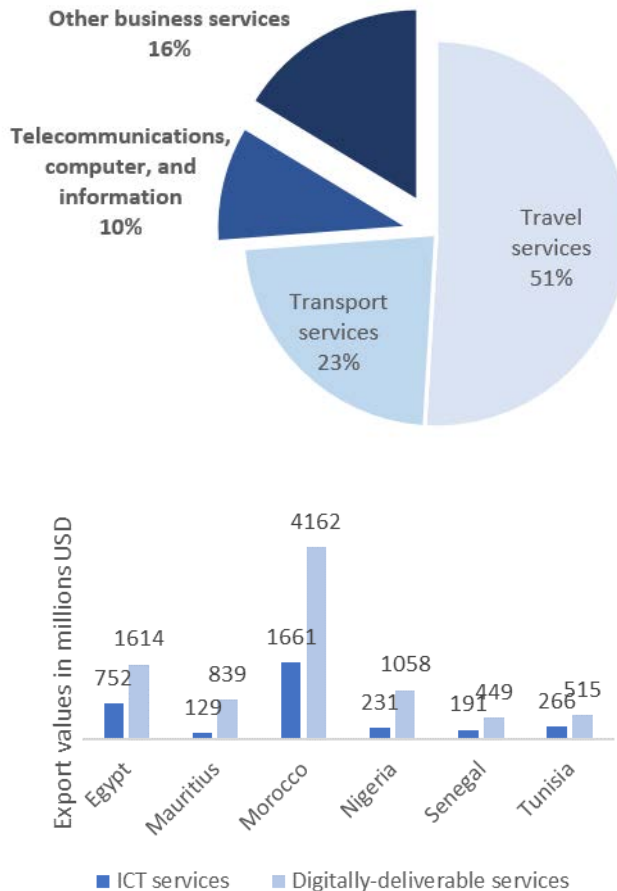
II. Morocco's Digital Sector

Morocco has in recent years taken meaningful strides in digital trade, particularly for export-oriented services based on digital technologies (IT-enabled services, or ITES). B2B services including business process outsourcing (BPO) and information-technology outsourcing (ITO), largely oriented to Spain, France, and other European Union markets, have become a strong component of Morocco's export basket. Morocco's IT-enabled services exports account for one fourth of the Kingdom's total services exports. Furthermore, while the value of Morocco's goods exports barely increased in 2019, the value of its services exports increased by 4% (UNCTAD, 2020a). Morocco leads ICT and digitally deliverable services exports in Africa (Figure 1b), and investment in ICTs has been shown to yield quick returns (Tralac, 2020). Travel accounts for the largest share of Morocco's services exports, bringing in 8.2 billion in 2019 (Figure 1a) (UNCTAD, 2020a). Traditional services, such as travel and transport, have also benefited from electronic transactions and digital services. About 70% of online purchases are within the travel sector, with a strong presence of Airbnb and global hospitality brands operating in Morocco. The tourism sector has been the leading source of e-commerce growth in Morocco (The Paypers, 2019). A strong dependence on the tourism sector was tested during the COVID-19 global pandemic: Morocco's overall services exports declined by 32% between November 2019 and November 2020 (Offices des Changes, 2020).

BPO and ITO services have benefited from the establishment of dedicated technology parks and other incentives. The sector's development has been fueled by a combination of technological developments, political will, and economic needs (Oxford Business Group, 2020). In contrast to most special economic zones (SEZs) in Africa, which target export growth in low-skilled industries, Morocco has targeted higher value addition. Home to the production plants of several car manufacturers, the Kingdom has dedicated some of its SEZs to high-tech activities and to the automotive and aircraft parts industries. The Casanearshore Park, located in Casablanca, hosts 100 multinational companies, including Dell, IBM, and PwC (Oxford Business Group, 2020). In 2013, IBM agreed to collaborate with local academic institutions to develop the necessary skills for the sector. In 2017, a Pathways in Technology Early College High School (P-TECH) school opened in Casablanca, allowing students to earn a high school diploma while working towards a university degree in science, technology, engineering, and mathematics (STEM)-related fields. Students participating in the program participate in industry mentoring, worksite visits, and paid internships (IBM, 2020). Morocco's National Agency for SME Promotion has been partnering with multinational firms to help small companies shift to cloud computing and improve competitiveness (MCINET,

2020). The government provides additional support to the sector, including tax incentives and skills training (MCINET, 2020). Between 2009 and 2015, the Kingdom supplied 70,000 professionals through an intensive program focused on offshoring jobs. The Kingdom is introducing additional programs to train individuals to work in information technology outsourcing (ITO) services and call centers.

Figures 1a, 1b. Morocco Services Exports (billions, 2019)



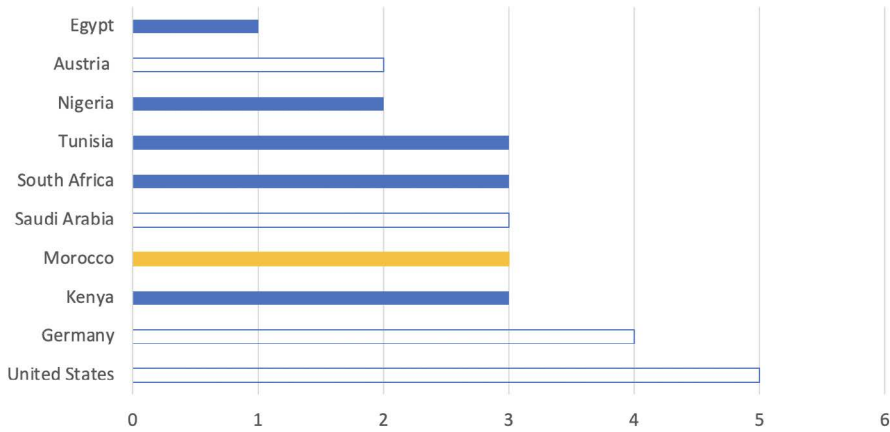
Source: (UNCTAD, 2020a).

Morocco's geographical location has also helped it become a popular offshoring destination for European firms. A.T. Kearney's Global Services Location Index assesses the potential of countries for offshoring services based on financial attractiveness, people skills and availability, and overall business environment. Morocco is one of six African countries ranked among the top fifty countries in this index, alongside Egypt, Mauritius, Kenya, Ghana, and South Africa. Morocco's digital service industry mainly includes call centers and business processing outsourcing activities (Oxford Business Group, 2020).

The Kingdom's offshoring sector has expanded rapidly over the last few years and has the potential for continued strong growth. The market currently caters mainly to French companies, benefitting from strong cultural and linguistic ties. An estimated 35% of Moroccans speak French (OIF, 2020). Many companies have transferred customer phone support and back office administrative functions to Morocco, taking advantage of lower costs and the ready availability of skilled labor. The Moroccan government has recognized the burdens faced by the sector—including skills shortages—and has vowed to support it (FT, 2016). Although significant steps have been taken in this direction, and the Kingdom has fulfilled its promise of training more professionals, businesses feel that more can be done to improve competitiveness, particularly with regard to pricing in the telecommunications sector.

Over the past few years, the Kingdom has taken further steps to embrace digitization. As part of the ambitious national strategy 'Maroc Digital 2020', the Agency for Digital Development was established with the goal of accelerating the digital transformation of the national economy, notably by encouraging entrepreneurship in the digital economy. As part of the strategy, the Kingdom has set up e-government platforms to facilitate access to public services for businesses and citizens. Additionally, the Kingdom helped establish a Federation of IT, Telecommunications and Offshoring, which focuses on promoting technological advancement and providing support to the IT sector. Nevertheless, to reap the benefits of digital transformation fully, further improvements remain necessary in terms of infrastructure and human capacity (OECD, 2018).

Figure 2. Number of Online Marketplaces Among the Top 20 Most-Visited Websites in the Country (2020)

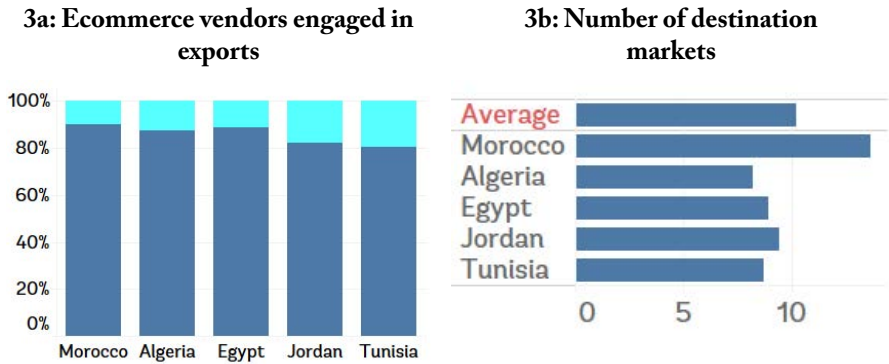


Source: (Alexa, 2020).

The penetration of online marketplaces in Morocco is comparatively high (Figure 2). The top 20 most visited websites in Morocco include Amazon, Jumia, and Aliexpress. The vast majority (95%) of all e-commerce transactions in Morocco take place through Pan-African Jumia, and the local e-commerce platform Hmizate, which focuses mostly on travel (The Paypers, 2019). Although Amazon's presence has grown in the Kingdom, high shipping costs keep most consumers from buying on the platform (Euromonitor International, 2020). In responding to the COVID-19 pandemic, the Ministry of Handicrafts reached an agreement with Jumia to enable artisans to sell their products on the continent's leading platform (The North Africa Post, 2020). The handicrafts sector, which mostly consists of female labor, contributes 7% of the country's GDP. While this represents a welcome initiative, the Kingdom should also direct efforts to assisting local platforms to increase online sales.

Morocco is also leveraging online marketplaces to increase exports. A survey on e-commerce conducted by the World Bank Group (WBG) showed that 90% of Moroccan vendors that engage in online sales also sell abroad. While such a high percentage is not uncommon, it exceeds those of Morocco's regional peers (Figure 3a). Morocco's e-commerce vendors export to more foreign markets than all other countries surveyed in the MENA region (Figure 3b). Moroccan firms surveyed by the WBG expressed a desire to diversify trade beyond the EU. Survey respondents stated that if the perceived top barriers were removed, they would aim to increase exports to China, Japan, and the United States.

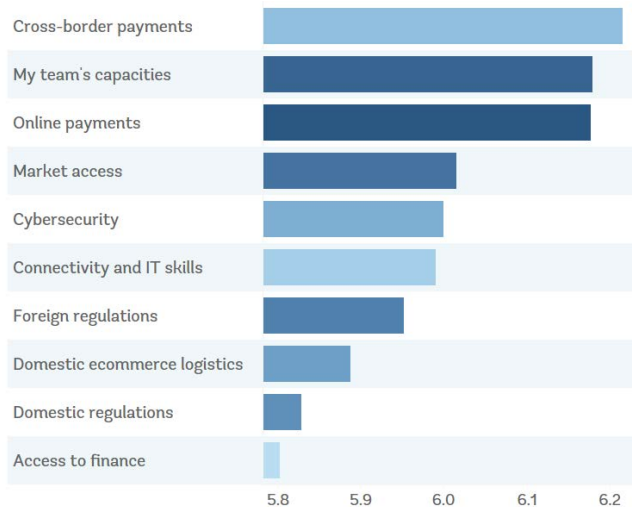
Figure 3. Morocco e-Commerce Vendors Have an Active Export Offer



Source: WB e-commerce surveys (2020).

Based on a World Bank e-commerce survey, Moroccan e-commerce vendors have pointed to shortcomings in the country’s framework for electronic payments, and to the inadequate supply of domestic IT-related skills, as key challenges for the sector’s growth in Morocco. Domestic capacity to take advantage of e-commerce is also an issue (Figure 4).

Figure 4. Challenges for e-Commerce in Morocco



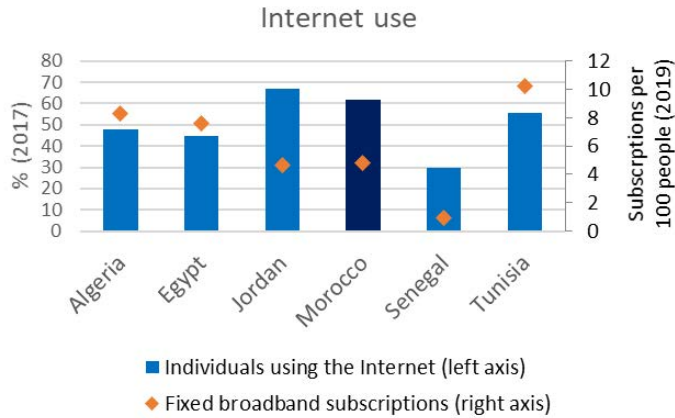
Source: WB e-commerce surveys (2020).

Digital Trade Determinants

Digital trade builds on three essential pillars: a modern, reliable, and affordable telecommunications infrastructure; an open, transparent, and predictable business environment; and the availability of high-skilled human resources. These essential components of a modern digital economy not only support international trade, but also serve other essential aspects of economic growth, such as increasing firm productivity, promoting social inclusion, and facilitating the delivery of public services. Morocco has made substantial progress on all these fronts, in particular mobile connectivity and digital regulation. However, progress on fixed broadband connectivity and digital skills remains slow, limiting the expansion of digital trade in the Kingdom.

Connectivity

Digital connectivity in Morocco relies heavily on mobile technologies. While Morocco boasts a high percentage of internet users within the MENA region, use of fixed broadband remains low (Figure 5). Focus on the rapid development of the mobile market over the past 15 years has arguably limited the expansion of Moroccan broadband infrastructure. The mobile penetration rate (number of SIM cards relative to population size) reached 128% in 2015. The market is saturated and no longer growing. Mobile internet, including current mobile ‘broadband’, offers adequate speeds for consumer use. However, businesses, especially in the digital sector, require speeds and reliability that can be achieved only through fixed, optic-cable based, technologies. Enhancing broadband access, especially for fixed broadband, is one of the main challenges facing Morocco in its pursuit of an innovation-driven digital economy (IFC and World Bank, 2019). Finally, although Morocco’s broadband prices fare better than the regional average, and relative to conditions in developing countries overall, other Maghreb countries offer internet services at more affordable rates (Figure 5b).

Figure 5. Internet Use in Morocco and Comparator Countries (2020)

Source: ITU, reflected in (World Bank, 2020).

Skills

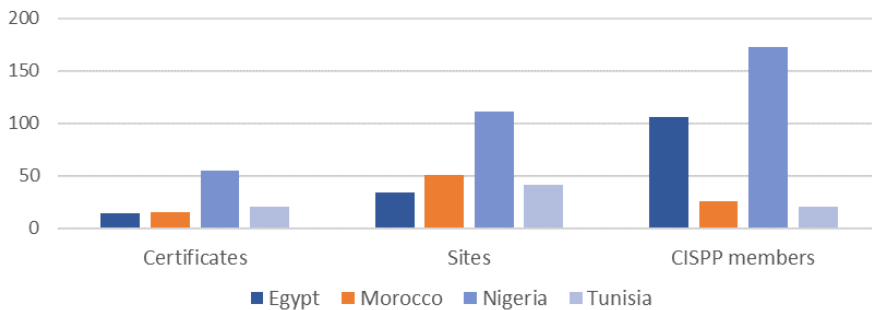
A strong education system is necessary to provide the basis for human capital for an industry that is labor intensive, and for supplying those higher value-added IT services that require greater skills. Much of the Moroccan population is aged under 30, and over 50% of the country's labor force has received basic education (KNOEMA, 2020), which can facilitate the adoption of emerging technologies and the growth of digital trade even as sustained efforts at strengthening digital literacy are needed. In recent years, the Kingdom has taken a number of initiatives towards improving the educational attainments of Moroccans. Vocational and professional training programs, along with job promotion campaigns, have been implemented to boost employment and entrepreneurship in the country (State Department, 2020).

Still, Morocco's talent pool lacks the skills required to take full advantage of the digital tools at its disposal. Morocco ranks 75 out of 141 economies covered by the World Economic Forum's (WEF) Global Competitiveness Index. The country scores particularly low in terms of ICT adoption, at 46.2%, falling well below MENA's average of 57.6%. This is likely due in part to weak digital literacy levels among the broader population. Such skills among Morocco's current workforce scored at 48%. Lack of ICT skills hinder women's participation in the digital economy. In Morocco, women make up less than a quarter of the workforce and there is a 20% disparity between men's and women's literacy rates (WEF, 2020). The gender divide is likely to worsen unless women are encouraged

to enhance their digital literacy and ICT skills, and to step up their presence in online commerce. Targeted capacity-building initiatives can help ensure that all Moroccans have the skills necessary to participate in the digital economy.

IT-specific skills also remain scarce, as reflected in Morocco's lagging regional performance in the number of software certifications (Figure 6). There are only 26 Certified Information Systems Security Professional (CISSP) credential holders in the country (ISC, 2020). CISSP is one of the most globally demanded certifications in the IT sector, granted to experienced security professionals. Similarly, as of 2019, Morocco had only 16 reported IT security management certificates. On the other hand, the country has 51 sites covered by certificates, performing better than Egypt and Tunisia in this regard. Stakeholders recognize that greater investments in IT skill training programs will be crucial to the sector's further development (Oxford Business Group, 2020).

Figure 6. Morocco Lags Comparator Countries on Software Certifications



Sources: ISO (2019), ISC² (2020).

Moreover, while Moroccans increasingly use the internet, fewer of them do so for purposes of shopping online. UNCTAD's B2C E-commerce Index measures countries' readiness to support online shopping. The index is based on four factors: (1) account ownership at a financial institution or with a mobile money-service provider; (2) percentage of the population using the internet; (3) postal reliability index; and (4) secure internet servers. While Morocco's score for the first indicator is decent, the country scores poorly on the other indicators. Only 22% of Moroccan internet users engage in online transactions. Furthermore, Morocco's global ranking in the Index slipped from 81 in 2018 to 95 in 2019, a marked drop.

Domestic e-commerce vendors are struggling to catch up with new technologies. Over 100 online marketplaces allow for trade in goods in Morocco, placing it second in Africa after South Africa (ITC, 2020). However, there is room for improvement in this area. While almost 75% of web visitors in Morocco access online marketplaces via mobile devices, less than 30% of the marketplaces have mobile applications (Figures 7a and 7b). Once more, capacity building initiatives need to be designed to provide Moroccan sellers with the tools necessary to increase their engagement in e-commerce.

Figure 7a. Most Moroccan Web Visitors Access Online Marketplaces by Mobile Devices

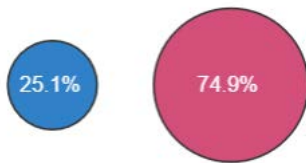


Figure 7b. Very Few Online Marketplaces in Morocco Offer a Mobile Application



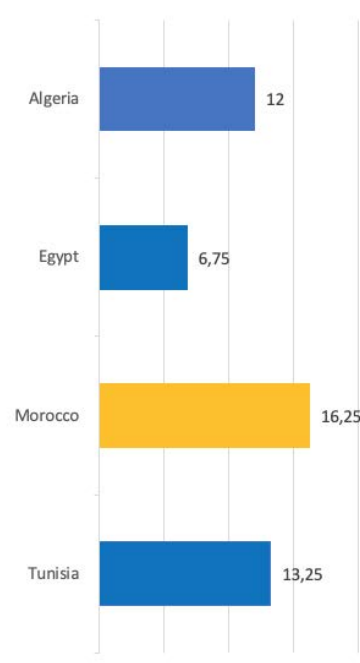
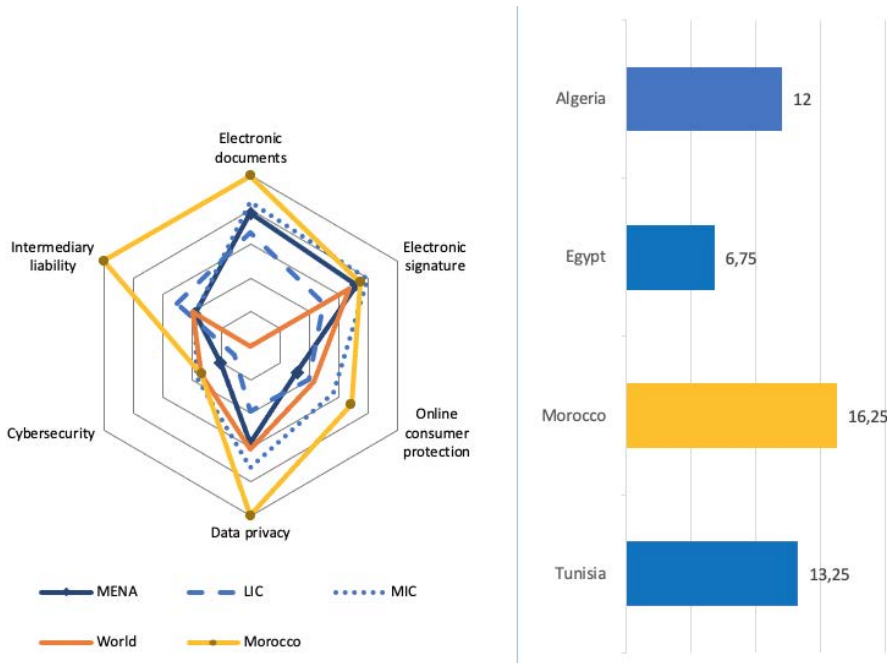
Source: ITC (2020).

Lack of access to online payments is a common hindrance to online transactions. Less than 1% of Morocco's population has a mobile money account (ITC, 2020). While the Kingdom has a 62% internet penetration level—the second highest in Africa—it ranked 78 out of 139 economies under the WEF's Networked Readiness Index, which assesses an economy's ability to leverage information and communications technologies to boost competitiveness, innovation, and wellbeing (WEF, 2016). One of the main factors behind Morocco's performance is a lack of interoperability among mobile money operators (Oxford Business Group, 2020). Moroccan consumers have generally been slow in adopting e-payments. In 2019, around 90% of online transactions were paid with cash on arrival. The Kingdom has taken steps to address this shortcoming, such as issuing e-payment licenses to financial institutions (Oxford Business Group, 2020). This should be a priority area if the country wishes to improve participation levels in the digital economy.

Legal and Regulatory Framework

Regulation plays a central role in building the foundations of digital markets (Daza Jaller and Molinuevo, 2020). It can provide the legal tools necessary for remote contracts, clarify the rights and obligations of the multiple actors involved in digital transactions, and establish a framework that promotes consumer trust in digital markets, even when the consumer does not know the merchant or when the latter is in a different country.

Figures 8a and 8b. Morocco Has Strong Digital Regulatory Readiness Performance (2020)



Source: Authors' analysis of national legislation. Note: a top score of 20 indicates the existence of disciplines in all 37 regulatory variables deemed valuable to digital trade.

Morocco's regulatory framework is advanced compared to other countries in the region and to countries at similar income levels. The World Bank's Digital Trade Regulatory Readiness Index reviews and scores a key set of regulations for digital trade for a total of 47 countries, including Morocco and the rest of the countries in the MENA region¹. The Kingdom performs better than

1. No available data for Libya, Palestine, and Syria.

the regional and global averages in all of the variables analyzed, and is the top performer among the African economies covered by the index (Figures 8a and 8b). Out of a total of twenty points for six categories of regulation, Morocco scores a total of 16.25 points. Morocco's regulatory framework is particularly strong on e-documents, data privacy, and intermediary liability.

Additionally, the Kingdom aims to provide an enabling environment for online businesses and consumers. In 2016, the Kingdom removed a year-long ban on voice-over-internet protocol (VoIP) services, such as WhatsApp and Facebook, formerly enforced by the Telecommunications Regulatory National Agency (ANRT). The ban, which was highly controversial, was estimated to have led to 320 million in economic losses (Brookings, 2016). Ending the ban will not only help reduce costs for companies and improve competitiveness in the sector, but will also allow citizens to communicate more easily with the rest of the world. Finally, Morocco is the only African country to date to have negotiated a preferential trade agreement with a chapter on e-commerce. Chapter 14 of the Morocco-U.S. Free Trade Agreement includes most-favored nation (MFN) and national treatment commitments, and bans customs duties on electronic transmissions.

III. Agreements and Discussions on Digital Trade

Treaty-based provisions on digital trade are expanding in scope and depth, mirroring the rapid recent development of digital trade. The first trade agreements that included e-commerce provisions focused mainly on ensuring that online transactions were not treated any differently to physical commerce. Recently negotiated agreements address a much broader range of cross-border issues, including commitments to allow the flow of data across borders, and prohibitions on requirements to store data locally. Of the 305 preferential trade agreements currently notified to the WTO, 91 include e-commerce provisions (WTO, 2020). These range from legally binding and enforceable commitments to soft-law (i.e. best endeavor) provisions. New trade rules and standards aim to reduce barriers to digital trade and ensure an environment in which businesses and consumers can fully reap the benefits arising from the accelerating digitalization of the world's economies.

At the global level, 86 Members of the World Trade Organization are participating in the Joint Statement Initiative on Electronic Commerce (JSI), which has led to plurilateral negotiations on e-commerce. Morocco formally signaled its willingness to join the JSI discussions in March 2020. Six focus groups have been established, each of which addresses a specific set of

issues: (i) enabling e-commerce; (ii) openness and e-commerce; (iii) trust and e-commerce; (iv) cross-cutting issues; (v) telecommunications-related issues; and (vi) market access. A key focus of ongoing negotiations is the facilitation of electronic transactions, ensuring adequate levels of consumer protection in the online world, and curbing restrictions on cross-border data flows.

In the context of Joint Statement Initiative discussions on e-commerce, several WTO members have put forward proposals on various issues forming part of a draft consolidated text. China, for instance, issued a communication recalling, among other things, the different development levels and particular situations of WTO Members, and the need to consider the reality of prevailing digital divides when negotiating new rules. Brazil proposed a draft suggesting general exceptions to the agreement, including those “to ensure the equitable or effective imposition or collection of direct taxes in respect of trade through electronic means”. Australia’s communication noted the importance of trade facilitating measures, including paperless trading and e-invoicing.

Table 1. Participants in the WTO Joint Statement Initiative on e-Commerce (latest count)

Developed countries	Transition economies	Latin America	Asia	Africa
Australia Canada European Union (27 member countries) Iceland Israel Japan Liechtenstein New Zealand Norway Switzerland United States	Albania Georgia Kazakhstan Montenegro Republic of Moldova Russian Federation North Macedonia Ukraine	Argentina Brazil Chile Colombia Costa Rica Ecuador El Salvador Honduras Mexico Nicaragua Panama Paraguay Peru Uruguay	Bahrain Brunei Darussalam China Kuwait Lao People's Democratic Republic Malaysia Mongolia Myanmar Qatar Republic of Korea Singapore Thailand Turkey United Arab Emirates Hong Kong, China Taiwan Province of China Indonesia Philippines Saudi Arabia	Nigeria Benin Burkina Faso Côte d'Ivoire Kenya Morocco Senegal

Source: https://www.wto.org/english/tratop_e/ecom_e/joint_statement_e.htm.

The expansion of the digital economy has translated into increasingly ambitious disciplines on digital trade embedded in preferential trade agreements (PTAs). Recent trade agreements have substantially increased the attention paid to matters of digital trade governance, including in agreements between developing countries, an example being the African Continental Free Trade Agreement, in the context of which, Morocco has signaled a readiness to lead discussions on e-commerce. The latest trend has seen countries concluding

bespoke 'digital trade agreements' as stand-alone instruments in the context of broader integration processes, such as in the ASEAN context, or as independent agreements (see DEPA, below). Noteworthy agreements on digital trade include:

- **CPTPP:** The Comprehensive and Progressive Agreement for Trans-Pacific Partnership entered into force in 2018, with 11 member countries in the Asia-Pacific region. Chapter 14 of the Agreement sets a new benchmark in digital trade rules by featuring the first mandatory provisions on cross-border data flows and server localization requirements, in addition to other disciplines on electronic commerce, personal data protection, customs duties on electronic transactions, and online consumer protection.
- **USMCA:** The United States-Mexico-Canada Agreement updates and replaces the provisions of the 1994 North American Free Trade Agreement (NAFTA). Although the text of the Agreement largely mirrors provisions found in the CPTPP, Chapter 19 on Digital Trade is somewhat more comprehensive and strengthens some key provisions, notably those prohibiting server localization requirements.
- **ASEAN:** the Association of Southeast Asian Nations is an intergovernmental organization with ten member countries from Southeast Asia. It has engaged in several initiatives to foster digital trade in the region, including an Agreement on E-commerce, signed in 2018. The main objectives of the agreement are to facilitate cross-border trade, provide an environment of trust in e-commerce, and deepen cooperation between members. The agreement includes a binding provision on cooperation calling on Members to share information and implement assistance projects in digital trade.
- **DEPA:** The Digital Economic Partnership Agreement is another agreement that builds on the CPTPP and aims to complement WTO negotiations on e-commerce by creating a legal precedent. The Agreement builds on prior work on digital trade under other international organizations, such as Asia-Pacific Economic Cooperation (APEC) and the OECD (New Zealand Government, 2019). While the Agreement was concluded in January 2020 between Chile, New Zealand, and Singapore, other countries may adhere to any one of the twelve 'modules' of the agreement, or to the agreement as a whole. Additionally, countries may include the modules in separate agreements. The modules, meant to be building blocks, cover a broad range of measures governing the digital economy, ranging from trade facilitation to artificial intelligence. Although DEPA signatories have already agreed to most of the commitments under the CPTPP, DEPA serves as a pathway to regulatory harmonization or approximation, and provides a more circumscribed route for countries that may otherwise

be reluctant to negotiate comprehensive agreements covering all trade-related matters. Many of the commitments under the DEPA are hortatory (i.e. non-binding) in nature, allowing flexibility for local conditions, and encouraging cooperation between governments. The Agreement's module on digital inclusion mandates cooperation to promote the participation of women and indigenous peoples in the digital economy, while the module on SME cooperation calls for a digital dialog to be established to promote the fuller participation of SMEs in the benefits of digitization.

- **Australia:** Australia has included e-commerce chapters in fourteen of the sixteen PTAs it has concluded to date. The Government signed its latest digital economy agreement in August 2020. The Australia-Singapore Digital Economy Agreement (DEA) will replace the existing Electronic Commerce chapter in the Singapore-Australia FTA (SAFTA). The SAFTA, which came into effect in 2003, was the first PTA to include a chapter dedicated to e-commerce. The DEA establishes new commitments not featured in the SAFTA or the CPTPP to assist businesses and consumers to benefit from the digital economy². Additionally, Singapore and Australia signed a series of Memorandums of Understanding (MoUs) to facilitate practical cooperation initiatives on several issues, including data innovation, trade facilitation, and personal data protection. Prior to the conclusion of the agreement, the two governments identified a set of priority digital standards for development that they aim to focus on jointly (see Annex 1).
- **RCEP:** the Regional Comprehensive Economic Partnership was signed by ASEAN members and five regional partners at a virtual summit in November 2020³. The Agreement will take effect 60 days after ratification by at least six ASEAN and three non-ASEAN members. Although RCEP establishes the world's largest trading bloc, it is not as comprehensive as other recent agreements. Chapter 12 on e-commerce includes binding provisions on personal e-signatures, personal data protection, and online consumer protection, similar to those in the CPTPP. However, it also includes broad exceptions for measures related to national security, limiting the strength of these provisions. Provisions on other areas, such as paperless trading and source code, are highly aspirational, giving Members more leeway to adopt measures as they see fit.
- **ECOWAS:** the Economic Community of West African States, comprised of 15 countries, aims to promote regional integration. ICT ranks among its priorities, and to that end member countries are working towards region-wide

2. These include a ban on data localization restrictions across all sectors, and improved enforcement and compliance provisions for online consumer protection and data governance.

3. Australia, China, Japan, New Zealand, and South Korea.

convergence of IT-related standards, and the harmonization of regulations. This has led to the recent region-wide adoption of supplementary rules governing electronic transactions and personal data protection.

- **COMESA:** the Common Market for Eastern and Southern Africa established a digital free trade area in 2018, seeking to reduce barriers to cross-border trade using ICTs. In response to the COVID-19 pandemic, the Council of Ministers decided to develop an online platform, from which traders can obtain information on product availability, and connect with others in the ecosystem.

The development of digital trade rules is called for in the context of the built-in agenda of the African Continental Free Trade Agreement. The Agreement Establishing the African Continental Free Trade Area (AfCFTA), which entered into force in May 2019, seeks to create one of the largest free trade areas in the world and to promote the intensification of intra-regional trade and investment ties. The Agreement has been signed by 54 out of 55 African Union member states, and ratified time of writing by 43 countries. The AfCFTA Agreement entered into force on January 1, 2021.

The AfCFTA calls for the development of rules on digital trade under a future AfCFTA Protocol on e-Commerce. The Executive Council of the African Union (AU) has directed the AU Commission to embark on preparations for e-commerce negotiations set to begin in Phase III, although no precise timetable has yet been agreed for such talks. As noted above, drawing on its sophisticated national digital ecosystem, Morocco has agreed to play a prominent leadership role in coordinating AfCFTA talks on digital trade.

IV. Key Disciplines on Digital Trade

Rules and practices found in existing trade agreements provide relevant background and benchmarks for negotiations on digital trade and Morocco's positioning in them, whether these are pursued at the WTO under the JSI, or at African continental level under the AfCFTA. Regardless of the negotiation setting, the experience emerging from recent trade negotiations suggests that a set of key disciplines is likely to form part of agreed negotiation packages. Three broad areas will need to be covered in an agreement or chapter on digital trade. These concern:

- The **scope** of the agreement and how it relates to other disciplines or chapters in a broader PTA, or to other agreements at the multilateral level;
- Certain **substantive rules and obligations** aimed at promoting digital trade amongst the Parties;
- Any **exceptions** that apply to disciplines in the agreement, or **additional flexibilities** that the Parties may enjoy in its implementation, including any exemptions from dispute-settlement provisions.

In addition to the regulation of digital trade flows, trade agreements play a key role in fostering a sound regulatory framework for digital trade. Substantive provisions are often complemented by soft-law approaches and cooperation arrangements aimed at promoting regulatory coherence and the adoption of convergent, and trade-facilitating, regulatory practices on digital trade. Areas of cooperation can include technical assistance initiatives, such as the sharing of experiences and practices, capacity building, and support in the preparation and implementation of digital trade rules.

Scope and Relationship with Other Disciplines

Digital trade disciplines typically feature a broad scope that covers all types of electronic transactions, including trade in goods, services, and investment. As digital transactions can relate to either trade in goods or services, a first key question is to define the scope of digital trade disciplines and their relationship with other chapters of the trade agreement. Current practice suggests a wide scope for such disciplines, although approaches vary. Only a handful of agreements feature an explicit provision on the scope of the digital trade chapter (Monteiro and Teh, 2017), often expressed in general and vague terms. The Japan-Switzerland FTA stipulates, for instance, that the e-commerce chapter applies to measures by a party affecting e-commerce, including for goods and services. Most agreements either do not feature any specific provision on scope, or provide some definitions of key terms such as ‘digital products’ or ‘electronic transactions’, as is the case in the Morocco-U.S. FTA. The CPTPP and USMCA both expand on such an approach by featuring broad definitions of ‘covered persons’, ‘digital products’, and ‘electronic transmissions’, covered by their respective chapters. These approaches all provide a broad coverage for digital trade disciplines, applying to electronic transactions on trade in goods, services, and investment.

Digital trade chapters generally do not provide for market access for digital goods and services. Digital trade disciplines focus largely on specific domestic regulations relevant to enabling digital transactions, but rarely include rules on markets access for digital products or services, or investment in digital businesses. The latter obligations and associated commitments are rather left to the liberalization negotiations pursued under treaty chapters governing market access for goods, cross-border trade in services, and investment. In this sense, at the level of the WTO-JSI discussions, any actual commitments to reduce discriminatory or quantitative barriers to specific digital services are likely to be reflected in the General Agreement on Trade in Services (GATS) schedules of commitments of participating Members rather than in new, ad-hoc, sectoral lists.

Rules on digital trade are also generally subsidiary to disciplines and commitments found in other chapters of trade agreements. Since the actual sectoral commitments relevant to digital trade are usually set out in chapters on services or investment, in order to prevent conflicts it is essential that the agreement is explicit on how the different sets of disciplines (e.g. services chapter vs digital trade chapter) relate to one another. To this end, the common practice is to give prevalence to disciplines and commitments found in other chapters, particularly those addressing liberalization obligations on trade in goods, cross-border services, and investment, over any disciplines in the digital trade chapter. Article 16.7 of the Canada – EU Comprehensive and Economic Trade Agreement (CETA), for instance, stipulates that in the event of an inconsistency between the electronic commerce chapter and another chapter, the latter chapter will prevail. This legal hierarchy promotes transparency and predictability by ensuring a clear set of rules.

Substantive Rules and Obligations

Substantive rules have traditionally focused on promoting, rather than mandating, an enabling regulatory environment for digital trade. Such rules address a diverse set of matters related to electronic transactions. These range from preventing the imposition of custom duties on digitally delivered products, to fostering the adoption of a comprehensive regulatory framework on e-signatures and e-documents. Given the regulatory complexity and novelty of the issues targeted by such disciplines, and the fact that digital regulation is still evolving in most jurisdictions, trade agreements have largely relied on non-binding provisions when spelling out enabling policies for digital trade. These provisions point to good practices in digital regulation, but do not entail a hard law obligation to adopt, or refrain from adopting, a specific regulatory measure. Table 2 offers a summary of the main provisions featured in a sample of latest-

generation preferential trade agreements, showing that the prevalence of legally binding and enforceable provisions has seen marked progress since Morocco in 2004 concluded a free trade pact with the United States, which featured embryonic digital trade provisions. An important question looking forward is the extent to which the provisions found in the latest generation of deep digital chapters can or should be replicated in the context of ongoing plurilateral talks at the WTO, and in looming AfCFTA negotiations. Two models that can be used for reference are the ChAFTA (China-Australia FTA) and the CPTPP. A participating country in the Regional Comprehensive Economic Partnership (RCEP), Australia, signed an FTA with China in 2015, which includes a chapter dedicated to e-commerce.

Table 2. Key Provisions on Digital Trade in Recent Preferential Trade Agreements

	US-Morocco FTA (2004)	Canada – EU CETA (2014)	ChAFTA (2015)	CPTPP (2018)	ASEAN (2019)	USMCA (2020)	DEPA (2020)	RCEP (2020)
Non-discrimination of digital products	■	–	–	■	–	■	■	–
E-documents & e-signatures	–	–	■	■	■	■	■	■
Paperless trading	–	–	■	□	■	□	■	□
Online consumer protection	–	–	□	■	■	■	■	■
Personal information protection	–	□	□	■	■	■	■	■
Cybersecurity	–	–	–	□	□	□	□	–
Unrestricted cross-border data flows	–	■*	–	■	□*	■	■	□*
Prohibition of Data localization	–	–	–	■*	□*	■	■	□*
Limitations on intermediary liability	■	■	□	■	–	■	–	–
Customs duties	■	■	■	■	–	■	■	□
Source code	–	–	–	■	–	■	–	□
Open government data	–	–	–	–	–	□	□	–

■ = Binding provision | □ = Best endeavor provision | □ = No provision | * = sectoral exclusions apply

Source: Authors' compilation.

Non-discriminatory Treatment of Digital Products

National treatment and MFN treatment extend the basic principles of non-discrimination to digital products. The aim of such provisions is to ensure that foreign 'digital products' are granted no less favorable treatment, in like circumstances, to that accorded to domestic digital products (NT), or between trading partners (MFN). The U.S.-Morocco FTA (Art. 14.3 (3)-(4)) provides an example:

Neither Party may accord less favorable treatment to digital products created, produced, published, stored, transmitted, contracted for, commissioned, or first made available on commercial terms in the territory of the other Party than it accords to like digital products created, produced, published, stored, transmitted, contracted for, commissioned, or first made available on commercial terms in the territory of a non-Party. . .

Neither Party may accord less favorable treatment to digital products whose author, performer, producer, developer, or distributor is a person of the other Party than it accords to like digital products whose author, performer, producer, developer, or distributor is a person of a non-Party. . .

Neither Party may accord less favorable treatment to a digital product transmitted electronically than it accords to other like digital products transmitted electronically. . .

so as otherwise to afford protection to the other like digital products that are created, produced, published, stored, transmitted, contracted for, commissioned, or first made available on commercial terms in its territory.

Most agreements, including the CPTPP and the SAFTA, limit the scope of non-discrimination provisions. Agreements may do so either by including an explicit carve-out in the text of the chapter, or by allowing signatories to inscribe limitations in their schedules of commitments, or in so-called reservation lists (for agreements based on a negative list approach to market opening). Carve-out provisions typically exclude measures relating to broadcasting, subsidies, or grants from the non-discrimination provision. Such a carve-out would entail that, for instance, programs designed to promote local IT firms, such as tax exemptions for domestic developers or credit guarantees for domestic start-ups, would likely not be captured by the non-discrimination provision, but could be subject to disciplines found in chapters on cross-border services or investment. Similar exceptions were included in negotiating proposals advanced by Japan and the U.S. in JSI negotiations at the WTO. Instead of a carve-out provision,

other agreements refer to sector-specific schedules or to lists of non-conforming measures to record any exclusions from the non-discrimination obligation, following the usual practice with services or investment disciplines. This is the case of, for example, of the Korea–Singapore FTA, the Mexico–Central America FTA, and the Japan–Mongolia EPA (Wu, 2017).

As Morocco has previously undertaken commitments in this regard, it is likely to have policies in place to comply with such a commitment. As mentioned above, the non-discrimination provision included in the U.S.–Morocco FTA is comprehensive, seeking to ensure national treatment and MFN treatment of digital products. Contrary to the CPTPP, which also includes a binding obligation on non-discrimination, the ChAFTA excludes non-discriminatory treatment of digital products from its text, while RCEP features non-binding language on this provision. Promoting a non-discriminatory environment for cross-border trade is a major step toward increasing digital trade.

Table 3. Non-discriminatory treatment of digital products

	Morocco	ChAFTA	CPTPP	RCEP
Rules for non-discrimination of digital products	■	–	■	□

Note: See Table 2 for the key to the symbols.

Electronic Documents and Signatures

Most agreements include provisions aimed at facilitating digital trade by promoting the recognition of electronic documents and signatures. Ensuring that electronic documents and signatures are fully recognized and enforceable is an essential regulatory step to allow for remote electronic contracts and transactions to take root. Typically, trade agreements address this matter by promoting regulation in line with the UNCITRAL Model Law on Electronic Commerce (MLEC) of 1996 and the UNCITRAL Model Law on Electronic Signatures (MLES) of 2001. These model laws offer a series of principles and guidelines on the regulation of electronic documents and signatures, but countries retain ample flexibility in deciding how to incorporate such principles into their regulation.

Domestic laws should ensure that contracts concluded electronically are legally enforceable. While some agreements mention the MLEC as a reference, others, like the Malaysia–Australia FTA, require adoption of MLEC provisions by the parties. The main objective of the MLEC is to facilitate

remote transactions by establishing rules to allow the electronic equivalent of paper-based documents to be legally recognized, thereby removing obstacles to remote transactions. The MLEC promotes the principles of non-discrimination, technological neutrality, and functional equivalence in the treatment of electronic documentation. The principle of non-discrimination is the cornerstone of the regulation, as it ensures that a document would not be denied legal effect, validity, or enforceability solely on the grounds that it is in electronic form. The MLEC provides that e-documents should not be denied admissibility as evidence in legal proceedings based solely on their electronic nature (Daza Jaller and Molinuevo, 2020). Similarly, the UN Convention on the Use of Electronic Communications in International Contracts (CUECIC) of 2005 is a binding treaty that establishes functional equivalence between electronic communications and paper documents, and ensures the enforceability of contracts entered into electronically. At time of writing, the only African countries to have signed the treaty are Benin, Cameroon, and Congo.

Domestic regulations should also recognize that electronic signatures are a legally valid form of accepting an obligation or terms of a document. Similarly to electronic documents, trade agreements promote the adoption of an enabling framework for digital signatures by referencing either the UNCITRAL Model Law on Electronic Signatures (MLES) of 2001 or the United Nations Convention on the Use of Electronic Communications in International Contracts. The focus of such provisions is to ensure that, when an electronic signature meets certain requirements, it has full recognition of validity and enforceability, just like a handwritten signature⁴.

UNCITRAL's Model Law on Electronic Signatures (MLES) of 2001 provides the standards required for an e-signature to be considered legally equivalent to handwritten signatures. An important provision found in most current agreements affirms the principle of technological neutrality (Wu, 2017). Parties to a transaction should be able to choose the technology that best suits their needs. Singapore's Electronic Transactions Act recognizes all e-signatures as legally valid, while giving certain legal presumptions to more secure digital signatures. The government replicated this obligation in a recent proposal submitted to the WTO JSI talks, allowing parties to choose the technology appropriate for their transaction, but giving members the right to require specific authentication standards for certain types of transactions

4. The Convention provides that e-signatures should satisfy a legal requirement for a signature so long as the e-signature meets certain requirements. The method used to identify the party's intention in respect of the information attached must be either as reliable as appropriate for the purpose of the electronic communication, or proven to have fulfilled the requirements. The Convention's scope is limited to contracts between parties whose places of business are in different countries, and it excludes certain transactions, including contracts for family or household purposes, and transactions on a regulated exchange.

(WTO, INF/ECOM/25, 2019). Canada, the EU and the U.S. have proposed similar provisions (WTO, INF/ECOM/22, 2019; WTO, INF/ECOM/23, 2019; WTO, INF/ECOM/29, 2019). The CPTPP and the ChAFTA require rules for e-documents that are consistent with the MLEC or the CUECIC, and require that member countries recognize the legal validity of e-signatures. Some agreements, including the Australia-Chile FTA, encourage mutual recognition of digital certificates and e-signatures. The CPTPP and ASEAN encourage the use of interoperable electronic authentication.

Morocco's regulation is consistent with the principles of UNCITRAL's MLEC and MLES. The Kingdom's law on the electronic exchange of legal data recognizes electronic documents as equivalent to paper-based documents. Additionally, it recognizes electronic signatures as legally valid, allowing parties to a contract to choose any method of signing they deem appropriate given the circumstances. The use of a digital signature with a certificate is given the presumption of validity when presented as evidence in court. The Directorate General of Information Systems Security serves as the certifying authority, and Morocco allows for certification by private certification providers, which can help mainstream the use of digital signatures. These features are crucial to a functioning digital trade environment, as evidenced in the comparator agreements.

Table 4. Electronic documents and signatures

	Morocco	ChAFTA	CPTPP
Consistent with MLEC or CUECIC	■	■	■
E-signatures are legally valid	■	■	■

Note: See Table 2 for the key to the symbols.

Paperless Trading

Paperless trading provides online information on trade administration and documentation, and allows the electronic submission of required documents. According to the MoU on Trade Facilitation under the Australia-Singapore DEA, agencies from both countries are tasked with developing compatible paperless trading systems for trade in goods. The DEA also calls for compatible e-invoicing and e-payment frameworks. As of June 2020, 15 out of 21 COMESA Members had adopted the pilot Electronic Certificate of Origin

(eCO) System introduced under COMESA's Digital Free Trade Area (DFTA) initiative. The system seeks to reduce the time and costs involved in registering, applying for and submitting certificates. In the WTO JSI discussions on this topic, members generally concur on the need for the online provision of information and submission of documentation. However, while most JSI proposals tabled to date favor a 'best efforts' approach, Brazil has argued in favor of a binding commitment subject to exceptions. Some delegations pointed to the World Customs Organization (WCO) Framework of Standards for Cross-border Ecommerce as an international standard for paperless trading. Although paperless trading has the potential to significantly reduce costs, its adoption typically requires substantial public investments in digital infrastructure as well as technical capacity for its implementation, especially in developing countries (Wu, 2017). One solution could be to pool resources from several countries to create regional platforms with a view to promoting the compatibility of systems and streamlining regional trade procedures.

Morocco leads Africa in the implementation of measures on trade facilitation and paperless trade under the WTO Trade Facilitation Agreement (TFA) (UNCTAD, 2020). As of 2019, Morocco fully implemented the relevant measures on the publication of existing import-export regulations on the internet and the electronic submission of documents and applications. The CPTPP and ChAFTA are more discretionary in this regard, featuring mostly best-endeavor provisions for paperless trade. While neither agreement requires member countries to publish documents and information online, the ChAFTA does include an obligation to accept the electronic submission of trade administration documents. These measures are essential to increase cross-border trade efficiency and improve regional integration.

Table 5. Paperless Trading

	Morocco	ChAFTA	CPTPP
Online publication of documents and information	■	□	□
Online submission of documents	■	■	□

Note: See Table 2 for the key to the symbols.

Online Consumer Protection

Online consumer protection is crucial to supporting a global market for digital goods and services. Consumer protection regulation aims to build trust in digital markets by leveling the playing field between businesses and consumers in online transactions. An adequate regulatory framework helps to reduce the concerns consumers and providers face when buying and selling online, such as the rights and obligations they are subject to as a result of an electronic transaction. When goods or services are defective, or do not meet advertised quality criteria, governments should guarantee the existence of effective enforcement mechanisms and relevant bodies, and ensure that cost-effective means of consumer redress are available. While some e-commerce platforms offer guaranteed returns for all their purchases, a regulatory framework for online dispute resolution can help generate trust in smaller vendors or nascent individual websites. Online dispute resolution (ODR) mechanisms offer an inexpensive and speedy means to solve disputes between buyers and sellers through arbitration or mediation, even if located in different jurisdictions. ODR mechanisms can be established by domestic authorities or as international initiatives. For instance, the International Consumer Protection and Enforcement Network (ICPEN), an international organization that brings together consumer protection agencies from different countries, offers an ODR procedure for cross-border e-commerce disputes. It has been adopted by 70 countries (ICPEN, 2021). Finally, measures against unsolicited electronic messages (better known as spam) allow consumers to opt out of receiving unwanted commercial messages and to prevent businesses from sending such messages without consumer consent.

The key principles for online consumer protection are recognized in two main international soft law instruments developed by the OECD and UNCTAD. In 2016, the Organization for Economic Co-operation and Development (OECD) revised its Recommendation on Consumer Protection for E-commerce of 1998, modernizing its approach to fair business practices, information disclosures, payment protections, unsafe products, dispute resolution, enforcement, and education. Similarly, the UNCTAD Guidelines on Consumer Protection of 1985 (revised in 1999) were updated in 2015 to include recommendations directed to protecting online consumers and improving transparency in online transactions. The Guidelines also recommend cooperation between countries, including in terms of information exchange and enforcement activities. In 2017, UNCITRAL published its Technical Notes on Online Dispute Resolution, noting the need for an adequate system for resolving cross-border disputes over online transactions (UNCITRAL, 2017).

Online consumer protection is one of the most common provisions in existing PTAs (Wu, 2017). Most agreements include best-endeavor provisions in this regard. The ChAFTA encourages parties to extend protections afforded under traditional consumer protection regimes to digital transactions. The CPTPP introduced enhanced online consumer protection commitments, requiring domestic consumer protection regimes to prohibit activities that harm online consumers, and to provide recourse against unsolicited commercial electronic messages. Some agreements, including the ChAFTA, encourage regulatory dialogue and the exchange of information and experiences on national approaches to online consumer protection. Such a provision was included in JSI proposals by Japan, Singapore, Hong Kong, Korea, China, and Canada. Several PTAs have introduced rules requiring consent prior to sending unsolicited electronic messages, as well as the right to opt-out and appropriate recourse in the case of violations. Brazil, China, the EU, and Japan have all advocated the inclusion of such provisions in their draft proposals to the WTO-JSI talks (WTO, INF/ECOM/20, 2019; WTO, INF/ECOM/22, 2019; WTO, INF/ECOM/27, 2019; WTO, INF/ECOM/32, 2019). Finally, while a Korean JSI proposal encourages each party to establish an online dispute resolution mechanism, Canada advocates that Members maintain a forum to hear e-commerce disputes (WTO, INF/ECOM/31, 2019).

Morocco's law on consumer protection dedicates a chapter to remote transactions, which includes those concluded electronically. The law requires online sellers to disclose certain information before the terms of the contract are accepted. It also provides post-purchase protections for online transactions. Following the OECD recommendation, the law affords consumers a period of time after purchasing a product or service online in which to cancel a contract. Additionally, it allows online consumers to obtain redress for harm suffered as a consequence of goods or services that are defective or do not meet advertised quality criteria. Finally, with regard to electronic marketing, the law on data protection requires the recipient's consent, clear identification of the sender and its contact information in the message, and an option to opt-out. However, Morocco's laws do not provide an online mechanism to resolve disputes for e-commerce transactions. The Kingdom could enhance trust in e-commerce by introducing an ODR mechanism in its law, or adopting the ICPEN mechanism.

Table 6. Online Consumer Protection

	Morocco	ChAFTA	CPTPP
Unsolicited commercial messages	■	□	■
Rules for online transactions	■	□	■
Online dispute resolution	□	□	□

Note: See Table 2 for the key to the symbols.

Protection of Personal Information

Lack of trust in the way personal data is managed drives consumers away from electronic transactions, limiting the growth of digital markets. Several international instruments set out the key principles of data protection regulation. In 2013, OECD members updated their Guidelines on the Protection of Privacy, adopted in 1980 to account for the new reality of digital data flows. The OECD Guidelines pinpoint the economic risks arising in the digital sphere, and aim to protect privacy and individual liberties with respect to personal data processing in the public or private sector. The Guidelines articulate eight basic principles of data protection:

- **Collection limitation principle:** limits the collection of personal data to only what is necessary, and suggests lawful and fair means for collection, as well as consent of the data subject where appropriate;
- **Data quality principle:** calls for relevance of the personal data to the purposes for which they are to be used. Data should be accurate, complete, and up-to-date;
- **Purpose specification principle:** data controllers should specify the purpose for which the data are collected no later than at the time of data collection. Any subsequent use of the data should be limited to those purposes, and the data subject should be notified of any change of purpose;
- **Use limitation principle:** limits the use of the data for purposes other than those specified, with the consent of the data subject or by the authority of law;

- **Security safeguards principle:** calls for reasonable protection of the data from risks such as loss or unauthorized access, destruction, use, modification, or data disclosure;
- **Openness principle:** suggests a general policy of openness regarding developments, practices, and policies with respect to personal data;
- **Individual participation principle:** affirms that the data subject should have the right to request data from a data controller, or a confirmation of whether the data controller has personal data relating to the subject. If the data controller has such data, it should be provided to the data subject within a reasonable timeframe, in a reasonable manner, and in a form that is readily intelligible to the data subject; and
- **Accountability principle:** the data controller should be held accountable for abiding with Guideline principles.

The issue of personal data protection has been ubiquitous—and contentious—in recent policy debates across the world. Most recently, the Digital Economy Partnership Agreement (DEPA) between Singapore, Chile, and New Zealand, recognized the need for international collaboration on matters relating to the digital economy, including data governance. The Asia-Pacific Economic Cooperation (APEC) Privacy Framework of 2015 promotes a flexible approach to privacy protection, with a focus on avoiding the creation of unnecessary barriers to information flows. The Convention ‘108+’ of the Council of Europe is an international human rights treaty focused on data protection, setting out principles that are compatible with the requirements of European regulation. The CPTPP, the RCEP, and the USMCA all require parties to provide for the protection of personal information in their national laws. Other agreements, including the Trade Agreement between the EU and Colombia and Peru, encourage the introduction of these protections to the extent of a country’s capabilities. Under the latter Agreements, the Trade Committee is tasked with establishing an agenda with priorities and guidelines with regard to data protection. The ChAFTA adopts a relaxed position in this regard, requiring each party to introduce online data protection measures “*as it considers appropriate and necessary*”, and that it take into account international standards “*to the extent possible*”. Proposals on matters of data privacy advanced to date within the JSI context mostly call on WTO Members engaged in the negotiations to implement national legal frameworks to this end (WTO, INF/ECOM/20, 2019; WTO, INF/ECOM/22, 2019; WTO, INF/ECOM/25, 2019; WTO, INF/ECOM/26, 2019; WTO, INF/ECOM/27, 2019; WTO, INF/ECOM/28, 2019). A proposal by Canada encourages WTO Members to

develop mechanisms for compatibility among national data protection regimes (WTO, INF/ECOM/34, 2019).

Morocco's law on the protection of personal data takes elements from the EU Data Protection Directive of 1995, introducing a substantial regulatory framework for data governance. The law includes common principles for personal data protection, including the need to have a legitimate reason for any processing activity, and the data subjects' right to access their personal data being processed, make objections regarding the way it is treated, and request corrections or deletions where appropriate. In recent months, Morocco's data protection authority (CNDP) has issued statements and recommendations on various data privacy-related issues that have arisen as a result of the COVID-19 pandemic, including contact tracing and teleworking.

Table 7. Personal Information Protection

	Morocco	ChAFTA	CPTPP
Data protection measures	■	□	■

Note: See Table 2 for the key to the symbols.

Cybersecurity

While often less visible to individual consumers, cybersecurity regulation is an essential component for promoting trust in digital markets (Daza Jaller et al, 2020). Cybersecurity refers to measures that can be implemented to protect personal data from unauthorized access and corruption. Major data breaches not only compromise people's privacy but can have a chilling effect on digital markets as consumers realize how vulnerable their information can be. Adequate cybersecurity regulations render data controllers and data processors liable for data processing. A data controller makes decisions over the purposes and means of data processing, while a data processor processes data on behalf of controllers. For example, if an e-commerce platform hires a firm to track consumer activity on the platform, the e-commerce platform is the controller with regard to the information collected, while the firm is the processor.

Security requirements consist of organizational and technical measures as well as human resources. These may include the mandatory encryption of personal data, implementation of rigorous internal policies, or the appointment of data managers at the firm level. Assessing the risks to a data subject's

privacy helps determine the adequate safeguards that need to be implemented. Countries without adequate data protection regulations risk being shunned by companies and investors because of the lack of certainty over compliance and data handling (NTB, 2015). Additionally, such countries run the risk of missing out on the benefits of the internet, including innovation and economic growth (WEF, 2016). A key aspect of data protection is who monitors and enforces the implementation of regulations. The establishment of a capable and effective implementing agency is central to ensuring adequate implementation and to providing individuals with a policing entity that can be resorted to in case of violations.

Most PTAs include best-endeavor provisions on cybersecurity, or none at all. While the ChAFTA does not address cybersecurity matters, the CPTPP encourages cooperation in this regard, without specifying any requirements. Compared to previous PTAs, the USMCA introduces a ‘risk-based’ approach to cybersecurity⁵. The United States advocated for a similar provision in a draft proposal to the WTO-JSI (WTO, INF/ECOM/23, 2019). Several other JSI proposals call for stepped up cooperation among members to share best practices and increase cybersecurity capacity (WTO, INF/ECOM/20, 2019; WTO, INF/ECOM/25, 2019; WTO, INF/ECOM/27, 2019; WTO, INF/ECOM/28, 2019; WTO, INF/ECOM/31, 2019; WTO, INF/ECOM/32, 2019).

Morocco’s law on personal data protection includes an embryonic provision on cybersecurity, requiring data processors to implement measures to protect the data from unauthorized access or damage, without any clear specifications on the nature of the measures. Morocco could follow the example of Israel and Qatar, both of which require data processors to conduct risk assessments, notify data subjects and/or authorities of data breaches, encrypt sensitive data, and appoint data managers responsible for data security in the firm. On the other hand, Morocco has a supervisory authority that monitors data-processing activities, which is an important component of a comprehensive framework on cybersecurity.

5. Under this approach, firms would identify and address cybersecurity threats based on consensus-based standards and risk-management best practices.

Table 8. Cybersecurity

	Morocco	ChAFTA	CPTPP
Cybersecurity rules	■	□	■
Enforcement agency	■	□	□

Note: See Table 2 for the key to the symbols.

Cross-border Data Flows

The ability to transfer data across borders is not only essential for e-commerce, but is also an increasingly important pillar of economic competitiveness (Bartley Johns et al, 2018). Burdensome regulations on the use and transfer of data can result in substantial costs for businesses, especially small and medium-sized enterprises. The goal is to allow data transfers in a manner that supports the expansion of digital markets, while increasing consumer trust that private information remains secure and under user control. Governments should restrict cross-border data flows only when necessary to protect consumer privacy and essential security interests.

Providing clear rules on cross-border data transfers increases transparency and ease of compliance. The USMCA recognizes APEC's Cross-Border Privacy Rules (CBPR) system as a valid mechanism to transfer personal data across borders. Under the CBPR, companies certify their compliance with certain privacy protection principles. The CPTPP requires that parties allow cross-border data transfers for business purposes. Exceptions apply for legitimate public-policy objectives, so long as the measures do not unduly restrict trade. On the other hand, the ChAFTA is silent on the cross-border transfer of personal data. The EU-Mexico Global Agreement, currently under negotiation, takes a different approach by giving signatories a timeline to reassess their commitments on cross-border data flows, recognizing the rapidly evolving nature of this issue and evolving views on how best to address it. This approach was proposed in a submission by China to the WTO-JSI talks, recalling the differing views of WTO Members on this issue (WTO, INF/ECOM/19, 2019). Proposals put forward by Canada, Japan, the United States, Korea and Singapore mirrored the language found in the CPTPP (WTO, INF/ECOM/20, 2019; WTO, INF/ECOM/23, 2019; WTO, INF/ECOM/25, 2019; WTO, INF/ECOM/31, 2019; WTO, INF/ECOM/34, 2019). The proposal from the U.S. allows for restrictions on cross-border data flows of personal information, when necessary and proportionate according to the risks presented (WTO, INF/ECOM/22 2019).

Morocco's law on personal data protection dedicates a chapter to the cross-border transfer of personal data. Data processors may only transfer personal information to countries that provide a "sufficient" level of protection with regard to the private life and fundamental rights and freedoms of data subjects. The sufficiency of the level of protection is based on a country's laws, security measures in place, the characteristics of the processing such as the objective, the duration, as well as the nature of the data, their origin and destination. Data processors may also transfer personal data if the data subject provides consent, and under certain circumstances including contractual and legal obligations.

Table 9. Cross-border Transfer of Personal Data

	Morocco	ChAFTA	CPTPP
Clear rules on data transfers	■	□	■

Note: See Table 2 for the key to the symbols.

Data Localization Requirements

Data localization requirements compel the storage or processing of data within the country where the service is provided (Daza Jaller et al, 2020). Some governments require the storage of a copy of the data within national borders, while others ban the processing or transfer of data outside country borders. For instance, many states of the United States require that any contractors to public contracts locate their servers within the state itself. Data localization requirements can be narrowed down to a specific sector. China and Indonesia maintain broad localization requirements, while Korea and Vietnam, for example, impose data localization requirements on financial services and internet service providers, respectively. Most data localization measures are found in the accounting and financial sector, as well as in the health sector (Bauer et al, 2014).

While the geographical location of the data may sometimes respond to public-policy concerns, for instance with data sensitive to national security, often this requirement results in unnecessary costs to taxpayers and users. Furthermore, the localization of servers within a given country is hardly an effective cybersecurity measure in itself, as the data may be better protected if distributed across servers around the world rather than in one single location, or within one single country. This can prove particularly troubling when requiring the localization of both the main data servers as well as the 'recovery' centers used for backup. Data localization requirements introduce costs for firms,

which are forced to have multiple data storage locations, and can close the market for those who cannot afford such expenses (Bauer et al, 2014). These costs can ultimately be passed on to consumers and to the country imposing the restriction. Additionally, keeping the data static may negatively impact its resilience, heightening its vulnerability to attacks (Klein, 2015).

Some recent PTAs feature formal bans on server-localization requirements. While the ChAFTA does not address this issue, the ASEAN Agreement on e-commerce bans members from requiring companies to locate their computing facilities within country borders. However, the ban does not apply to financial services. Although the CPTPP included a similar ban, the USMCA built on the provision under the CPTPP, removing the financial services carve-out. Under the Australia-Singapore DEA, businesses—including in the financial sector—cannot be required to store their data in either jurisdiction. The Australia-Indonesia FTA includes an exception to this ban for the protection of “essential security interests”. The RCEP agreement also features a ban on server localization requirements, accompanied by a broad exception for national security considerations. Several proposals made in the WTO-JSI context address such a ban (WTO, INF/ECOM/34, 2019). The draft provided by the U.S. addresses the financial services carve-out, allowing localization requirements in the sector only when the regulator does not have access to financial data stored abroad (WTO, INF/ECOM/23, 2019). Additionally, financial-service suppliers found in violation of this provision must be given an opportunity to provide access to the data before being required to locate it within the regulator’s jurisdiction. Other proposals, including by Japan, Korea, Singapore, and Ukraine, provide exceptions for legitimate public policy objectives (WTO, INF/ECOM/20, 2019; WTO, INF/ECOM/25, 2019; WTO, INF/ECOM/28, 2019; WTO, INF/ECOM/31, 2019).

Morocco’s law on personal data protection does not feature any data localization requirements. While a comprehensive review of digital regulations applied at the sectoral level goes beyond the scope of this chapter, a review of specific literature and data sources suggests that Morocco’s sectoral regulations follow the cross-cutting guidelines of law on personal data protection and do not introduce specific data localization requirements⁶.

6. See sources Data Guidance, “Morocco - Data Protection in the Financial Sector”, April 2022, available at <https://www.dataguidance.com/notes/morocco-data-protection-financial-sector>; and US International Trade Administration, “Morocco - Country Commercial Guide”, 2021, available at <https://www.trade.gov/morocco-country-commercial-guide>.

Table 10. Data Localization Requirements

	Morocco	ChAFTA	CPTPP
Ban on data localization	□	□	■

Note: See Table 2 for the key to the symbols.

Intermediary Liability

The internet's unparalleled ability to connect billions of individuals worldwide has boosted business models based on intermediation between vendors and consumers. E-commerce platforms like Alibaba, eBay, and Mercado Libre are based on offering consumers products from thousands of different providers, rather than their own stock. 'Gig economy' apps offer services such as rides, lodging, or delivery of food or groceries from firms and individuals. Other services rely on content such as video (YouTube, Vimeo), opinions and reviews of products or services (Yelp, Google), or information (blogs) developed by thousands of users, most of whom remain unknown to the final consumer. The relationship between the intermediary (websites and apps) and the firms or individuals offering their own products or services is hence essential to the functioning of those digital transactions.

Intermediary liability rules are the set of provisions that distribute the liability between intermediaries (website and apps) and actual vendors or content developers when things go wrong. In other terms, intermediary liability is the responsibility that falls upon online intermediaries, such as search engines, application platforms, social networks, and broadband companies, for third-party content featured in, or products and services offered through, their website or apps. Just as intermediation is not a novel business model, intermediary liability rules are not new a legal concept—most such rules can in fact be traced back to Roman law. Intermediary liability rules can in fact be broader rules that apply to online intermediaries (Gasser and Schulz, 2015). However, the specific rules of digital intermediaries are more likely to adapt to the particular conditions of digital markets.

Rules on intermediary liability need to strike a balance between protecting consumer rights and supporting the expansion of digital markets, including through intermediary platforms. While the good, service, or content may be offered or developed by third parties, intermediary platforms benefit from it by building their businesses around it. Digital intermediaries manage the relationship with the consumer, and they are often the largest and most sophisticated actor involved in the transaction. As such, regulations can impose

on intermediaries (jointly with the third party) liability for fake or faulty products or services, or for offensive or illegal content, transacted through or featured in their services. On the other hand, intermediaries often do not have full knowledge of everything that is being offered by producers and content developers, who have greater control over it.

For digital intermediaries, responsibility may arise mainly from two types of conduct: the offering for sale of counterfeit products, or the publication of unlawful content, such as images or text, by their users. The offering of fake products would normally entail a violation of intellectual property rules (typically trademark protection). Unlawful content can instead run against intellectual property rules when the content is unduly featuring other people’s work (a violation of copyright protection), by for instance reproducing music or video without the authors’ permission. It may also violate criminal law provisions including rules against libel, hate speech, or child pornography, the protection of individual privacy or classified information, or amount to *lèse-majesté* crimes.

At the international level, some principles on intermediary liability have been included in recent trade agreements. The CPTPP and the USMCA set limits to intermediary liability in their intellectual property and digital trade chapters, respectively. Intermediaries are not liable for copyright infringements “that they do not control, initiate, direct, and that take place through systems or networks controlled or operated by them or on their behalf”. However, they must remove or disable access to copyright-infringing content on their networks on learning of its existence. The ChAFTA is more discretionary in this regard: the intellectual property chapter allows parties to limit the liability of internet service providers for third-party infringement when the providers take action to prevent access to the infringing content.

Morocco stands out as the only North African country with comprehensive intermediary liability rules. Most countries in the region lack a specific framework for online intermediary liability. This results in overly stringent requirements that may add risks and costs for digital platforms. Those who do provide for such a framework usually do not cover infringements related to intellectual property—a key aspect for providers for content platforms (YouTube) or social media (Facebook), or smaller local social platforms, which depend on content uploaded by third parties and may find themselves liable for violations incurred by their users. Morocco’s Law of 2000 on Copyright and Related Rights was amended in 2005 to include a section on the liability of service providers⁷ with safe-harbor rules for intellectual property infringements

7. Defined in the law as “a provider or operator of facilities for on-line services or for access to networks, including a provider of transmission, routing or connection for digital communication on-line, with no alteration of the content, between points specified by the user and of his/her choice”.

by third parties. This amendment followed the conclusion of an FTA between Morocco and the United States which embedded, in its intellectual property chapter, a binding commitment to provide intermediary liability rules with safe harbor provisions (Art. 15.11 (28)):

For the purpose of providing enforcement procedures that permit effective action against any act of copyright infringement covered by this Chapter, including expeditious remedies to prevent infringements and criminal and civil remedies, each Party shall provide, consistent with the framework set out in this Article . . .

limitations in its law regarding the scope of remedies available against service providers for copyright infringements that they do not control, initiate, or direct, and that take place through systems or networks controlled or operated by them or on their behalf, as set forth in this subparagraph.

Table 11. Intermediary Liability

	Morocco	ChAFTA	CPTPP
Rules for online intermediaries	■	□	■
Safe harbor provisions	■	□	■
Intellectual property rights covered	■	□	■

Note: See Table 2 for the key to the symbols.

Customs Duties

Customs duties can be applied to goods or services delivered online or physically, as well as to physical goods delivered online, such as through 3D printing. This presents a challenge for tax authorities, as the goods and services being traded are not necessarily crossing borders in a physical sense. The WTO moratorium on customs duties on electronic transmissions has been extended at successive Ministerial meetings since its establishment in 1998. In December 2019, WTO Members agreed to extend the moratorium until the next Ministerial Conference. Although many Members wish to make the moratorium permanent, as is the case in many PTAs, the African Group of WTO Members and other developing country Members have voiced opposition to this idea,

claiming that before negotiations in this regard can lead to agreement, certain “systemic divergences” must first be settled⁸. The African Group fears that any new rules on e-commerce (including on the permanency of the moratorium) could further accentuate deep digital disparities between rich and poor countries (WTO, WT.MIN(17)/21, 2017).

A recent study estimated the impact of digital taxes on tariff and indirect tax revenue in Kenya, Nigeria, and South Africa (Esselaar et al, 2020). Although the results showed that if the moratorium became permanent all countries would likely incur fiscal revenue losses, it argued that the benefits of digital trade—knowledge and technology transfer, cost reductions, more efficient use of resources—outweighed such losses. Therefore, it suggested imposing an indirect (consumption) tax on digitally traded goods, but refraining from imposing customs duties. Draft proposals to the WTO-JSI talks by Canada, New Zealand, and Ukraine follow such an approach, proposing a permanent ban on customs duties on digital products, while allowing internal fees (taxes) to be levied (WTO, INF/ECOM/28, 2019; WTO, INF/ECOM/30, 2019; WTO, INF/ECOM/33, 2019).

The U.S.-Morocco FTA, as well as recent PTAs, including the CPTTP and the ChAFTA, feature hard bans on customs duties on electronic transmissions. This ranks among the most common provisions found in existing e-commerce chapters. In most cases, the ban applies to the trade in digital products through electronic transmissions, without specifying whether this includes goods and/or services (Wu, 2017). However, the agreement the EU concluded with both Colombia and Peru clarifies the scope of the ban, equating electronic means to “the provision of services” (EU-Central America Association Agreement, 2012). Conversely, proposals made in the context of ongoing plurilateral negotiations on e-commerce at the WTO referred to customs duties as those applied to the importation of goods. Some agreements distinguish between products transmitted electronically and goods traded online but delivered physically. For example, the PTA between Panama and Singapore sees customs duties banned for the former while allowing the Parties to levy a duty on the value of the “*carrier medium*”⁹. In proposals to the WTO-JSI talks, Japan, the United States, Brazil, Korea, and Canada defined electronic transmissions as “*a transmission made using any electromagnetic means*”. Indonesia excluded content transmitted electronically from the ban in its proposed draft. Some agreements, including the RCEP, allow members to adjust this commitment based on the outcome of

8. Issues cited by the African Group include technological neutrality under the GATS and whether digitally delivered products are considered goods or services, or both.

9. The U.S.-Morocco FTA defines carrier medium as “any physical object capable of storing a digital product by any method now known or later developed, and from which a digital product can be perceived, reproduced, or communicated, directly or indirectly, including an optical medium, a floppy disk, and a magnetic tape”.

ongoing WTO discussions on e-commerce. This approach has been adopted in several JSI proposals, including Indonesia's and Canada's.

Table 12. Customs Duties

	Morocco	ChAFTA	CPTPP
Ban on customs duties	■	■	■

Note: See Table 2 for the key to the symbols.

Source Code

The need to ban requirements on access to source codes has become more prevalent in trade discussions in recent years. A software source code, or an algorithm expressed in the source code, can contain a firm's trade secrets. Mandating access to such proprietary information as a condition for trade exposes source-code owners to loss of their exclusive rights over proprietary technology.

The CPTPP is one of the few agreements to incorporate specific provisions on source-code disclosure. The agreement bans parties from requiring the transfer of, or access to, software source code owned by a person of the other party as a condition for the import, distribution, sale or use of such software, or products containing such software in the party's territory. The CPTPP limits this commitment to "mass market" software, excluding software used for "critical infrastructure" from its scope. The text of the agreement does not define either of these terms. This commitment does not preclude requirements to provide source-code information pursuant to a commercially negotiated contract, or a party from requiring the modification of source code necessary for that software to comply with laws or regulations which are not inconsistent with the CPTPP. Korea and Singapore included a similar provision in their draft proposal to the WTO, adding that governments may require the transfer of, or access to, source-code information as a means of imposing ex-post regulation. The EU's proposal clarifies that this provision is without prejudice to requirements to protect intellectual property rights or national security.

Although Morocco has source-code disclosure requirements for telecommunications hardware products, foreign IT companies are not required to provide access to their proprietary information (State Department, 2020).

Table 13. Source Code

	Morocco	ChAFTA	CPTPP
Bans on source code requirements	□	□	■

Note: See Table 2 for the key to the symbols.

Open Government Data

Provisions on open government data seek to ensure that government information is readily available for public consumption. Government data is the non-proprietary data held by public bodies, whether it be the central government or different government agencies. The OECD encourages governments to allow the use, reuse, and free distribution of this information, as a way to increase transparency and accountability of the government, but also as a means to foster innovation and entrepreneurship, and to improve the quality of citizens' lives (Ubaldi, 2013). Although countries have increasingly implemented open government initiatives over the past two decades, related provisions have only been introduced in recent agreements like the USMCA and the DEPA, couched in non-binding language. Proposals advanced in the WTO-JSI negotiations include best-endeavor provisions on the public disclosure of government data, and information exchanges on practices and policies in this regard.

Morocco has engaged in efforts to increase public access and use of government data. In 2018, Morocco joined the Open Government Partnership, a coalition of governments and civil society that seeks to increase public-private relationships through citizen engagement and access to publicly-held information. A law on access to information passed in 2018 and entered into force in early 2020, granting citizens the right to access information held by the public administrations, elected institutions, and public service bodies. Government data is available through an online portal.

Table 14. Open government data

	Morocco	ChAFTA	CPTPP
Open government data commitments	■	□	□

Note: See Table 2 for the key to the symbols.

V. Recommendations

Modern trade agreements should address digital trade as a key channel for economic integration and development. Over 600 B2C e-commerce marketplaces currently allow for trade in goods in Africa (ITC, 2020), but only 11% of them allow for digital payments, limiting their potential for cross-border transactions. Further, as growth in the digital sector benefits from economies of scale and scope, integrated regional markets can play an essential role in promoting digital development. To ensure an enabling environment for digital trade, policymakers should ensure that trade agreements support the supply of digital goods and services, including by micro, small, and medium-sized enterprises (MSMEs). They should also endow consumers with the digital literacy needed to take advantage of the opportunities presented by the digital economy.

A forward-looking trade agreement should focus on adopting a conducive and cohesive regulatory environment for digital trade, while recognizing the challenges that developing nations face. To fully harness the potential of digital technologies, trade agreements should address the digitization of trade, build trust in the online environment, and reduce barriers to digital trade. Morocco has much to gain by harnessing the development potential of digital trade at both global (WTO) and continental (AfCFTA) levels. Doing so would also endow it with the ability to embed digital-trade provisions into the new preferential trade partnerships the Kingdom envisages. Digital trade chapters should enshrine comprehensive rules on digital trade that offer clear guidance for digital trade policies and regulatory solutions, paired with strong institutional arrangements focused on strengthening policymaking and regulatory capacity.

Morocco is in a strong position to lead continent-wide efforts at promoting greater integration in digital trade and investment. As discussed in section 2, Morocco has advanced substantially in recent years in the development of an

export-oriented digital-services sector, particularly oriented towards business and IT outsourcing. Morocco's digital-services sector can thus serve as a force to encourage the country's operators to expand their business opportunities on the continent and beyond. It can also help galvanize support domestically and with stakeholders across the region. Furthermore, Morocco's digital firms can help identify regulatory limitations that affect digital services in the region, and establish priorities for continent-wide commitments and reform.

Morocco has also advanced domestically in key aspects of digital trade regulation, which can help it guide the adoption of a conducive and coherent regulatory framework across the region. In recent years, Morocco has introduced a series of timely regulations on digital trade. In fact, as mentioned in section 4, Morocco has built a domestic regulatory framework that would be largely compliant with the most ambitious agreements concluded to date on digital trade, including advanced disciplines on issues such as data protection and intermediary liability. While this does not necessarily mean that the country should advocate those rules in the AfCFTA context, especially in an agreement featuring many countries at an early stage of digital development and governance, it does confirm Morocco's interest in developing an open and balanced framework for digital trade that can serve as a model for other African nations.

Substantial Content

Rules on digital trade should focus on promoting an enabling regulatory framework by fostering greater trust in digital markets and the interoperability of cross-border data. Comprehensive regulations are needed on key aspects of digital trade. This includes electronic signatures and documents, consumer liability of digital platforms, and cross-border data transfers, all of which are key building blocks of modern digital trade frameworks. Ensuring that such rules are compatible across borders further reduces trade costs and enables the mobility of production factors, helping consolidate an integrated digital market, and supporting the insertion of firms in regional or global production networks.

Trade agreements should also allow for regulatory experimentation, as digital trade regulation continues to evolve rapidly and confronts new policy challenges. Multiple key areas of digital regulation, including in the areas of data governance, intermediary liability, and consumer protection, are still evolving. They seek to address some of the most novel and sensitive policy challenges arising from the digital economy. Furthermore, institutional oversight and enforcement of digital regulation can often entail substantial costs in infrastructure, institutions, and expertise, which may not always be available

in small or less-well resourced developing economies. Trade agreements should thus allow for regulatory experimentation and should recognize that different regulatory approaches and measures may be suitable to secure compliance with public policy objectives linked to digital uptake. Furthermore, the implementation burdens flowing from the adoption of new disciplines require sufficient technical assistance to be made available. Countries with weaker implementation capacity should be given time to sequence compliance.

Comprehensive disciplines and an ambitious scope would set out guiding principles across all essential matters relevant to digital trade. Morocco's experience in the U.S.-Morocco FTA and its own domestic regulatory ecosystem can serve as guidance for the scope and direction of an agreement that can set the basis for a conducive environment for digital trade on the continent. Comprehensive disciplines should be also complemented with adequate flexibilities that allow for regulatory experimentation in this rapidly evolving field.

Non-discrimination

Non-discrimination between domestic and foreign assets is a cornerstone of the global trading system. In the context of digital trade, however, it may clash with commitments and disciplines applying to other relevant disciplines, notably on cross-border trade in services and investment. To prevent any inconsistencies, especially in a context in which services commitments are under negotiation, such a provision may be adopted in declarative form. The non-binding nature of the provision would not reduce the value of the principle, as both national treatment and MFN treatment in the goods and services protocols of AfCFTA apply to digital goods and services.

Regulatory Disciplines for Digital Trade

In line with modern agreements on digital trade, the AfCFTA should feature a broad set of disciplines setting out regulatory guidelines on a range of issues relevant to digital trade. Adopting a common set of disciplines on matters including electronic documents and signature, consumer protection, data protection and cybersecurity, and intermediary liability can spur regulatory coherence across the continent. Such disciplines may contain binding and non-binding language. Table 15 details different potential provisions and the key elements they may feature. The agreement, however, must recognize that the design and adoption of such regulations can be lengthy, especially for

administrations confronted with acute capacity constraints. For this reason, the agreement should provide for the staggered implementation of treaty disciplines, affording more time for least-developed country signatories.

Provisions on electronic documents and signatures, online consumer protection, and data protection are key to promoting trust in online markets. Morocco can build on its own regulatory experience to bring these matters to the negotiating table, as the Kingdom has already adopted sophisticated regulations in such areas. Other African countries have made some inroads in that direction already, especially with rules on electronic documents and signatures. Adopting provisions on these key areas would signal an intent to conclude an ambitious and forward-looking agreement on digital trade. At the same time, such regulatory principles are unlikely to generate concerns about increased competition for domestic firms, as they focus on defining rules and protection policy values such as personal privacy, rather than market opening.

Provisions on cross-border data flows will be a central feature to highlight the direction of an open framework for digital trade. How digital trade agreements address cross-border data transfers is becoming their key defining feature. As such, a provision against limitations on cross-border data flows, and against server localization requirements, can help set out a standard for open digital markets in the region. Any such provision, however, needs to recognize that cross-border data flows may be limited in response to legitimate policy concerns, such as national security or law enforcement.

Striking a balanced approach between openness to cross-border data while accommodating legitimate policy concerns would be a major contribution to the landscape of digital trade regulation. A possible way could be to use non-binding language for provisions on cross-border data transfers, complemented with mandatory transparency procedures (e.g. parties must notify and/or allow other parties to comment if a restriction on cross-border data is being adopted). More substantially, the agreement could include a binding provision, coupled with a declaration of public policies, including individual privacy and national security, that would allow for limitations to cross-border data flows. Adoption of a mechanism to ensure regulatory transparency could help strengthen the provision to avoid introducing a major loophole through broad and vague exceptions. In addition, allowing for the sharing of non-binding country-specific lists of non-conforming measures could help pave the way for a stronger, binding provision.

Table 15. Provisions for Consideration in Digital Trade under the AfCFTA

	Key mandatory disciplines	Best-endeavor Provisions	Other Flexibilities	
Non discrimination	Non-discrimination of digital products	NT & MFN treatment of digital products. Clarify the meaning of digital products.	May include sectoral carve-outs or country-specific sectoral lists.	
Regulatory disciplines	Electronic documents and signatures	Adoption of MLEC principles. Functional equivalence of e-signatures.	Ratification of the UN Convention on the Use of Electronic Communications in International Contracts. Mutual recognition of e-authentication and e-signatures. Interoperable electronic authentication.	Deferred application of provision for LDCs
	Online consumer protection	Protection of online consumers at least equivalent to that provided for traditional commerce. Enforcement and compliance provisions on online consumer protection.	ODR as a legal option for online consumer disputes; ODR mechanism. Regulation of unsolicited electronic messages. Promote awareness of and access to redress mechanisms. Cooperation among national agencies.	Deferred application of provision for LDCs
	Personal information protection	Enforcement and compliance provisions on personal information protection.	Recognize the protection of privacy as a pillar of digital trade regulation. Adoption of Convention 108+. Harmonization of personal data protection laws to ease compliance costs for companies transferring data within the region.	Consider the establishment of a working group to develop guidelines and interoperability priorities for African countries.
	Cross-border data flows	Allow the transfer of data between countries for business purposes across all sectors, subject to public policy limitations, including public order and the protection of privacy. Recognize the free movement of non-personal data, subject to national security exceptions. Prohibit general requirement to build data centers or use local computing centers as a condition of conducting business.		Consider country-specific sectoral lists of non-conforming measures. Complement with an understanding on access to data located abroad in judicial procedures. Complement provision or exceptions with a transparency/notification mechanism
	Intermediary liability	Adoption of rules on digital liability, including safe harbor provisions based on actual knowledge or due diligence.	Recognize that MSMEs and start-ups may require additional flexibilities	Deferred application of provision for LDCs

	Cybersecurity	Adoption of an internal policy and internal controls for data security, including risk assessment and breach notifications. Institution of a national data protection agency.	Depending on the size of the company and the type of data handled, require additional controls, including encryption and the appointment of a data manager.	Deferred application of provision for LDCs
Trade in goods	Customs duties	Ban on customs duties for electronic transmissions, subject to internal taxes. Clarify the meaning of electronic transmissions.		Obligation can be reviewed if WTO moratorium is not extended.
	Paperless trading		Multilateral cooperation and information sharing. Online publication of trade administration documents and acceptance of their electronic submission. Regional platform where all parties can obtain information, submit documentation, and make payments.	
Other disciplines	Electronic payments		Recognize the importance of a sound financial system to support electronic payments, including across borders. Seek to expand cross-border payment systems under relevant disciplines of AfCFTA.	
	Digital Standards		Promote the establishment of a working group to agree on standards for data interoperability, including definitions, technical requirements	
	Dispute settlement	Recognize the applicability of dispute settlement provisions for the chapter		Recognize the challenges for adoption of regulatory disciplines in digital trade and the need for special consideration for LDCs.

Source: Authors' compilation.

Disciplines on Trade in Goods

The agreement can also foster greater trade in digital and physical digital goods through specific provisions. Replicating the current understanding under the WTO, the agreement could incorporate a ban on custom duties on digital goods, while recognizing that Parties may reassess this provision if the WTO moratorium is lifted. A non-binding provision on paperless trading would also be included to signal the Parties' commitment to improving conditions for the movement of goods at the border, in line with the WTO's Trade Facilitation Agreement.

Other Disciplines

AfCFTA can be a channel to highlight areas of interest for developing countries and LDCs. Digital trade disciplines in AfCFTA can incorporate elements that are often absent in digital trade chapters, but are of particular interest for developing countries, such as the establishment of an electronic payments framework, including across borders, and discussions on digital standards. These provisions would be non-binding in nature, but could help set the stage for bringing those matters to other trade forums.

Flexibility and Cooperation

A broad agreement on digital trade led by developing countries should incorporate additional flexibilities for less-developed nations, and mechanisms to foster international cooperation. Flexibility in the adoption of specific provisions can range from longer timeframes for certain obligations, to the adoption and implementation of selected disciplines according to agreed categories, as done in instruments such as the WTO Trade Facilitation Agreement. In addition, international cooperation and the provision of technical assistance can be important tools for sharing experience and building expertise on both a national and continent-wide basis.

Variable Geometry

Variable geometry should be one of the cornerstone principles enshrined in trade agreements. Special and differential treatment (S&DT) can range from longer time periods for implementation, measures to increase trading opportunities, and technical assistance from developed countries. Provisions pursuing similar aims can be found in other WTO Agreements, including the GATS, Trade Related Intellectual Property Rights (TRIPS), Trade-related Investment Measures (TRIMs), and the Trade Facilitation Agreement (TFA). Ukraine's proposal to the WTO-JSI talks on e-commerce calls for future discussions of S&DT for developing countries and LDCs (WTO, INF/ECOM/28, 2019). However, the United States has stated its preference for an agreement with equal obligations for all parties (USTR, 2019). The ASEAN Agreement on Electronic Commerce, like other ASEAN trade instruments, has operationalized the concept of variable geometry in digital governance by granting Cambodia, Lao PDR, and Myanmar longer implementation periods for several commitments (ASEAN, 2019).

The AfCFTA E-commerce Protocol needs to consider that not all members are equally ready for deep digital trade commitments. For this reason, the Protocol should envisage flexibilities and targeted implementation assistance for African LDCs. Following the approach of the WTO's TFA, LDCs and G6 countries¹⁰ may identify digital provisions that can be complied with on entry into force; measures they can comply with over a transitional period; and measures they can comply with on receiving sufficient technical assistance.

Under AfCFTA, Members may wish to avoid bundling all treaty obligations together for immediate implementation. The 2014 AU Convention on Cyber-Security and Personal Data Protection has been ratified by only five out of the 15 countries required for its enforceability. The main reason cited for this delay in ratification is the fact that the Convention is comprehensive, addressing issues covered by various national laws (Esselaar et al, 2020). Instead, governments could follow the example of the TFA, and allow Members to ratify an e-commerce agreement while sequencing its implementation over time, or follow the approach taken under the DEPA, and split the agreement into separate modules that can be implemented in an iterative fashion. Finally, a multilateral agency or a regional development institution (or both) could be tasked with ensuring that LDCs secure the technical assistance necessary to properly implement and benefit from the Agreement.

Aid for Trade

Aid for Trade is among the best suited tools for developing countries and LDCs negotiating new agreements with advanced industrialized countries in the digital realm (Lacey, 2020). The WTO's Aid for Trade initiative, launched at the organization's 2005 Ministerial Conference, seeks to address the trade-related limitations faced by developing countries and LDCs through targeted development assistance aimed at buttressing negotiating and supply capacities. The Aid for Trade Task Force, established in 2006 to operationalize the initiative, identified six main aid categories: trade and policy regulations; trade development; trade-related infrastructure; building productive capacity; trade-related adjustment; and other trade-related needs (WTO, WT/AFT/1, 2006). In a communication from Argentina, Colombia, and Costa Rica, in the context of the WTO e-commerce negotiations, the Aid for Trade initiative was proposed as a way to protect the interests of developing countries and LDCs and bridging the digital divide (WTO, JOB/GC/174, 2018).

10. The G6 group, which consists of Ethiopia, Madagascar, Malawi, Sudan, Zambia, and Zimbabwe, has been granted flexibilities based on the countries' specific development challenges.

Particularly in the context of e-commerce discussions, what are in some cases acute supply-side limitations must be addressed when it comes to communications network infrastructure, which is crucial to digital connectivity and internet access (Lacey, 2020). Developing countries and LDCs should benefit from essential donor support in agreeing to market opening commitments (Lacey, 2020). Few African countries are in a position to supply the technical assistance needed by LDCs under a prospective continental agreement. One possible solution would be to engage regional and international organizations to provide financing for technical support and capacity building (Signé and van der Ven, 2019).

Stakeholder Cooperation

National governments must collaborate with different stakeholders in the public and private sectors in order to have a clear understanding of where things stand and what is necessary and feasible. In setting out each country's priorities, the needs and concerns of businesses, particularly SMEs and MSMEs, must be prioritized. Additionally, gender inequality must be taken into account, ensuring that the voices of women entrepreneurs are heard, and women are afforded equal opportunities in policy design and market access. Finally, national and local governments must work with the private sector to improve digital skills among the population, and to build trust in the functioning of digital markets.

Annex 1. Digital Standards

Digital Trade Areas	Standards for Alignment
Financial Messaging and Payments	<ul style="list-style-type: none"> • SWIFT Message Types (MT) and ISO 15022 • ISO 8583 -Financial transaction card originated messages - Interchange message specifications • ISO 20022 universal financial industry message scheme
E-invoicing	<ul style="list-style-type: none"> • EN16931 – European standard on e-invoicing for public procurement PEPPOL BIS Billing 3.0 is a Core Invoice Usage Specification (CIUS) of the European standard for e-invoicing (EN16931)
Digital Identity	<ul style="list-style-type: none"> • ISO/IEC 24760-1:2019 IT Security and Privacy – A Framework for Identity Management • ISO/IEC 24745:2011 Information Technology - Security Techniques - Biometric Information Protection • ISO/IEC 19784-1:2018 Information technology — Biometric application programming interface — Part 1: BioAPI specification • ISO/IEC 19794-x:2011 - Information technology - Biometric data interchange formats — Part 1: Framework; Part 2: Finger minutiae data; Part 4: Finger image data; Part 5: Face image data; Part 6: Iris image data • FIDO Universal Authentication Framework
Privacy	<ul style="list-style-type: none"> • ISO/IEC 29100:2011: Information technology -- Security techniques -- Privacy framework • ISO/IEC 29101:2018: Information technology -- Security techniques -- Privacy architecture framework • ISO/IEC 27018:2019: Information technology -- Security techniques -- Code of practice for protection of personally identifiable information (PII) in public clouds acting as PII processors • ISO/IEC 27701:2019: Security techniques -- Extension to ISO/IEC 27001 and ISO/IEC 27002 for privacy information management -- Requirements and guidelines
Internet of Things	<ul style="list-style-type: none"> • IEC 61850:2019 SER - Communication networks and systems for power utility automation (All Parts) • IEEE P2418.1 - Standard for the Framework of Blockchain Use in Internet of Things (IoT) • ISO/IEC/IEEE 42010: 2011 Systems and software engineering — Architecture description

Blockchain	<ul style="list-style-type: none"> • ISO/TR 23455:2019; Overview of and interactions between smart contracts in blockchain and distributed ledger technology systems • IEEE P2418.1 Standard for the Framework of Blockchain Use in IoT
Artificial Intelligence	<ul style="list-style-type: none"> • IEEE Standards Association (SA)'s Autonomous and Intelligent Systems (A/IS) standards P7000 series. • International Telecommunications Union (ITU), ITU-T Y.3172 (06/2019) Architectural framework for machine learning in future networks • ISO/IEC 20546:2019 - Information technology - Big data - Overview and vocabulary • ISO/IEC TR 20547-2:2018 - Information technology - Big data reference architecture - Part 2: Use cases and derived requirements • ISO/IEC TR 20547-5:2018 - Information technology - Big data reference architecture - Part 5: Standards roadmap
Smart Cities	<ul style="list-style-type: none"> • ISO/IEC 20005:2013 Information technology -- Sensor networks -- Services and interfaces supporting collaborative information processing in intelligent sensor networks • ISO/IEC 29182-1:2013 Information technology -- Sensor networks: Sensor Network Reference Architecture (SNRA) -- Part 1: General overview and requirements • ISO/IEC 29182-7:2015 Information technology -- Sensor networks: Sensor Network Reference Architecture (SNRA) -- Part 7: Interoperability guidelines

Source: DFAT (2020).

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8

WTO NEGOTIATIONS ON INVESTMENT FACILITATION FOR DEVELOPMENT: IMPLICATIONS FOR MOROCCO

Pierre Sauvé¹

I. Introduction

Structured discussions on investment facilitation for development (IFD) were initiated by a group of 70 Members at the World Trade Organization's (WTO) Eleventh Ministerial meeting (MC-11) held in Buenos Aires, Argentina, in December 2017. Morocco was not a signatory of the Joint Ministerial Statement calling for the development of a WTO-anchored plurilateral IFD framework, but the Kingdom signaled in March 2020 its readiness to formally participate in IFD discussions. In so doing, Morocco joins a group of 106 Members (out of 164) currently engaged in a negotiation process that began formally in September 2020, with the stated aim of producing an agreed text for endorsement by participating Members by the end of 2023 or by the time of the WTO's next Ministerial meeting scheduled for February 2024.

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Investment facilitation is generally understood as encompassing the broad range of policy measures directed at making the legal and administrative environment for international investment more transparent, predictable, efficient, and less costly for economic operators.

This chapter responds to a request by the Ministry of Industry and Trade of the Kingdom of Morocco for advice on the possible implications for Moroccan investment policy of IFD negotiations. In particular, we answer three specific questions. These relate to:

- The scope of any future multilateral IFD Agreement, particularly its development-related provisions and its contribution to achieving the Sustainable Development Goals (SDGs);
- The impact of joining a WTO IFD Agreement on Morocco's existing and newly adopted model of investment promotion and protection, given Morocco's status as both a foreign direct investment (FDI) recipient and source country.
- The changes that a possible WTO IFD Agreement might entail for Morocco's 1995 Investment Charter.

Our main findings are as follows:

- Morocco's decision to formally participate in plurilateral negotiations on investment facilitation for development is a welcome step, signaling the country's desire to enhance its investment climate and to embrace a series of good governance principles to that end. The various provisions under discussion in the IFD talks point to a possible outcome largely akin to a codification, in a multilateral context, of practices and policy orientations broadly aligned to the aims pursued by Morocco's investment policy, and found in the Kingdom's newly-reformed bilateral investment treaties (BITs), the country's 1995 Charte de l'Investissement (an updated version of which was submitted to the Moroccan Parliament in July 2022)² and the FDI-facilitating role already assigned to the Kingdom's Centres Régionaux de l'Investissement.
- By addressing a number of best practice facilitation issues that are not currently embedded in Morocco's investment treaties, a WTO framework on IFD represents a useful, investment climate-enhancing, complement to current Moroccan practices, the overall level of development of which suggests that compliance with new WTO disciplines is unlikely

2. See <https://medias24.com/2022/07/24/charte-de-linvestissement-ce-que-dit-le-projet-de-loi-cadre/>.

to prove contentious or unduly onerous. The sophisticated nature of Morocco's investment policy and promotion ecosystem suggests that Morocco should largely be able to implement the likely provisions of a WTO IFD agreement on its entry into force, without much need, if any, for transitional arrangements.

- Morocco's emergence as an important source country, particularly in Africa, suggests that a plurilateral agreement on IFD could generate positive impacts for Moroccan investors by strengthening the investment regimes of those countries to which rising levels of Moroccan FDI have in recent years been directed, and where legal and administrative frameworks and investment climates may not be as developed, open, or facilitative as in Morocco.
- The rising importance of services in Morocco's inward and outward FDI portfolio heightens the relevance of the red-tape and transaction cost-reducing properties of the investment facilitation disciplines being discussed in ongoing WTO negotiations.
- Beyond the contribution that a WTO IFD framework can make to the pursuit of Sustainable Development Goals (SDGs), there is much that Moroccan investment policy can do to promote heightened flows of sustainable investment at home and abroad. Notably, 'red carpet' programs can be designed and 'recognized sustainable investor' certification systems implemented. These would be targeted at investors and investments featuring the most attractive sustainability characteristics.
- While Morocco's policy stance towards foreign investment offers few, if any, signs of change in the wake of the COVID-19 pandemic, care must be taken to ensure that the country's investment climate is not adversely affected by the inward-looking bent of some recent Moroccan trade and industrial policies.

The chapter is structured as follows. Following this brief introduction, section 2 provides background on the origins and scope of the concept of investment facilitation, and on the process that led to the launch of negotiations on a multilateral IFD framework. Section 3 provides context on the IFD talks by recalling the latest trends in cross-border investment activity, focusing in particular on the impact the COVID-19 pandemic has had on cross-border investment flows, and the influence it may have on policy approaches to FDI. The section also reviews key Moroccan investment climate and performance metrics. Section 4 advances answers to each of the three questions raised by the

Moroccan authorities. Section 5 concludes by recalling key findings and policy implications.

II. Investment Facilitation: Origins and Chronology

The notion of investment facilitation is a relative newcomer to the world of investment governance, which has been long seen as consisting of four distinct categories: (i) investment promotion; (ii) investment entry and establishment; (iii) investment protection; and (iv) investment litigation (both state-to-state and investor-state arbitration).

Host-country governments can facilitate the operations of foreign-established firms at every juncture of the investment lifecycle (Figure 1). For instance, in lifting discriminatory, establishment- or operation-impairing investment measures, market-access negotiations clearly fulfil a facilitating purpose. The same can be said of the raft of aftercare services that investment promotion agencies supply once foreign investors are established, including the nurturing of linkages between lead foreign firms and local (often SME) suppliers, or managing investor grievances before they escalate into costly arbitral procedures. Despite these considerations, the scope of the WTO's investment facilitation discussions has been deliberately framed to exclude three investment-related issues considered by IFD proponents as unduly contentious: (i) market access (pre-establishment); (ii) investment protection (post-establishment); and (iii) investor-state dispute settlement.

The concept of investment facilitation emerged in the aftermath of the WTO's landmark 2013 Trade Facilitation Agreement (TFA), and its emphasis on boosting trade by reducing border-related transaction costs and streamlining and simplifying customs procedures. Devoid of a market-access dimension, the relatively less-contentious nature of the TFA and the fact that it garnered multilateral consensus—a first in WTO rulemaking—prompted several WTO Members, mostly developing countries, to explore how best to translate the notion of 'facilitation' of trade into the investment field³.

3. A similar attempt was made for trade in services, for which the Government of India proposed a full-fledged draft agreement in February 2017 wholly decoupled from the WTO's General Agreement on Trade in Services (GATS). See Kapoor, A. and A. Mukherjee (2018), f

Figure 1. The Investment Lifecycle⁴

Source: World Bank (2020).

Investment facilitation was first placed on the multilateral agenda during China’s presidency of the G20 in 2015-16. Reactivating the G20’s Trade and Investment Working Group (TIWG) at a time of rapid internationalization of the country’s leading firms, the Chinese presidency pushed for the adoption of nine non-binding Guiding Principles for Global Investment Policymaking, featuring a number of elements related to the facilitation of investment⁵.

Drawing on work by UNCTAD and the OECD, the Chinese presidency also circulated a text introducing the idea of a G20 “investment facilitation package”, meant to be taken up during Germany’s presidency of the G20 in 2016-17. Such efforts, however, failed to secure consensus, encountering strong opposition from India, South Africa, and the United States. Investment facilitation disappeared from G20 radar screens under the presidencies of Argentina (2017-18) and Japan (2018-19), with attention shifting to the WTO in the wake of the Buenos Aires Declaration and the support it enjoyed from a host of developed and developing country members.

4. The notion of the ‘investment lifecycle’ is a key element of the Investment Policy Framework Developed by the Investment Policy & Promotion team of the World Bank Group. It depicts FDI as a relationship between investors, host States and local stakeholders, which comprises the phases of investment attraction, including instruments such as promotion and locational incentives, investment establishment, investment permanence and expansion, and linkages and spillovers between FDI and the local economy. See World Bank (2017).

5. See <https://www.oecd.org/daf/inv/investment-policy/G20-Guiding-Principles-for-Global-Investment-Policymaking.pdf>.

The ‘structured dialogue’ on IFD that took place among WTO Members in 2017-18 progressively allowed the core elements of a multilateral framework to emerge. Progress was synthesized in a November 2018 checklist produced by the IF Coordinator that identified 81 distinct elements of investment facilitation falling under the following four broad headings:

- Transparency and predictability of regulations (e.g. publication and notification of investment-related measures, association/consultation of civil society during the development of measures, and establishment of information points/one-stop shops);
- Rationalization and acceleration of administrative procedures (e.g. simplification, reduction of deadlines and digitization of procedures related to investment, license or qualification requests, reduction of formalities, and documentary requirements, establishment of information points, single windows, ombudspersons for the prevention and mediation of disputes);
- International cooperation and exchange of information (e.g. exchange of information and good practices between competent authorities, institutional arrangements at the multilateral level, cooperation between public authorities and investors, including the handling of investor complaints); and
- Cross-cutting issues (e.g. special and differential treatment, technical assistance, general principle of non-discrimination, responsible business conduct, including in matters of corruption and gender equality).

Discussions held throughout 2019 allowed WTO Members to deepen their understanding and clarify the various elements of investment facilitation found in the four sections of the checklist by presenting concrete examples from their own domestic or international practices. These were subsequently compiled into a Compendium of Text-Based Examples. A ‘living’ document fed by Member submissions, the Compendium favored the subsequent emergence, under the Coordinator’s responsibility, of an ‘Informal Consolidated Text’, which outlined the provisions of a possible agreement. Fed once more by the submissions of WTO Members, this evolving text underpins the formal IFD negotiating process launched in September 2020⁶. Annex I lists the IFD-related provisions under discussion in the ongoing plurilateral talks, offering a sense of the likely scope of a possible future agreement. The structure of the agreement as currently envisaged centers around seven categories of provisions: (i) Scope and General Principles; (ii) Transparency of Investment Measures; (iii) Streamlining and

6. See WTO (2020).

Speeding Up of Administrative Procedures and Requirements; (iv) Contact/Focal Point/Ombudsperson Types of Mechanisms, Arrangements to Enhance Domestic Coordination and Cross-Border Cooperation on Investment Facilitation; (v) Special and Differential Treatment for Developing and Least Developed Country Members; (vi) Cross-cutting Issues; and (vii) Institutional Arrangements and Final Provisions⁷.

Efforts underway at crafting a plurilateral WTO IFD regime have been informed by, while also boosting, ongoing efforts to embed investment facilitating provisions in a still-limited but growing number of bilateral investment instruments and preferential trade agreements featuring investment disciplines. One example involves policy developments in Brazil which, alongside China, played an influential role in helping launch structured discussions on IFD at the WTO. Brazil's push for IFD-centric investment disciplines marks an important move away from standard investment treaty language, which has been long centered on matters of investment protection (including associated private-party recourse to dispute settlement). Brazil's approach has focused instead on investment cooperation and facilitation through the creation of mechanisms such as ombudspersons and joint committees to monitor investment relations, the adoption of investor grievance and dispute prevention instruments, and open-ended frameworks adapted to the development needs of Parties. Since March 2015, Brazil has signed sixteen Agreements on Investment Cooperation and Facilitation (ACFIs) with other developing countries, including one concluded with Morocco in June 2019. To date, only three such Agreements—with Angola, Mercosur partners, and Mexico—are in force⁸.

While the uptake of investment facilitation rules remains limited to date on a global scale, the strong traction in structured discussions at the WTO, involving close to two-thirds of the membership, a majority of which are developing countries, has fueled heightened interest in adding facilitation instruments to the investment policy toolkits of countries and regional groupings. One prominent example likely to exert precedent-setting influence, given the sheer magnitude of the regional grouping, stems from the investment facilitation provisions embedded in the investment chapter of the recently completed Regional Comprehensive Economic Partnership (RCEP) agreement (see Box 1). As befits novel areas of trade and investment governance, such provisions are wholly exhorting in nature and are not subject to the Agreement's dispute settlement provisions. This begs the question of the extent to which a similar outcome might be expected in a WTO context.

7. For a fuller discussion, see ITC and DIE (2020) and Berger, A., and Sauvant, K., eds. (2021).

8. See <https://investmentpolicy.unctad.org/international-investment-agreements/countries/27/brazil>.

Box 1. RCEP Provisions on Investment Facilitation

Article 10.17: Facilitation of Investment

1. Subject to its laws and regulations, each Party shall endeavor to facilitate investments among the Parties, including through: (a) creating the necessary environment for all forms of investment; (b) simplifying its procedures for investment applications and approvals; (c) promoting the dissemination of investment information, including investment rules, laws, regulations, policies, and procedures; and (d) establishing or maintaining contact points, one-stop investment centers, focal points, or other entities in the respective Party to provide assistance and advisory services to investors, including the facilitation of operating licenses and permits.

2. Subject to its laws and regulations, a Party's activities under subparagraph 1(d) may include, to the extent possible, assisting investors of any other Party and covered investments to amicably resolve complaints or grievances with government bodies which have arisen during their investment activities by: (a) receiving and, where appropriate, considering referring or giving due consideration to complaints raised by investors relating to government activities impacting their covered investment; and (b) providing assistance, to the extent possible, in resolving difficulties experienced by the investors in relation to their covered investments.

3. Subject to its laws and regulations, each Party may, to the extent possible, consider establishing mechanisms to make recommendations to its relevant government bodies addressing recurrent issues affecting investors of another Party.

4. The Parties shall endeavor to facilitate meetings between their respective competent authorities aimed at exchanging knowledge and approaches to better facilitate investment.

5. Nothing in this Article shall be subject to, or otherwise affect, any dispute resolution proceedings under this Agreement.

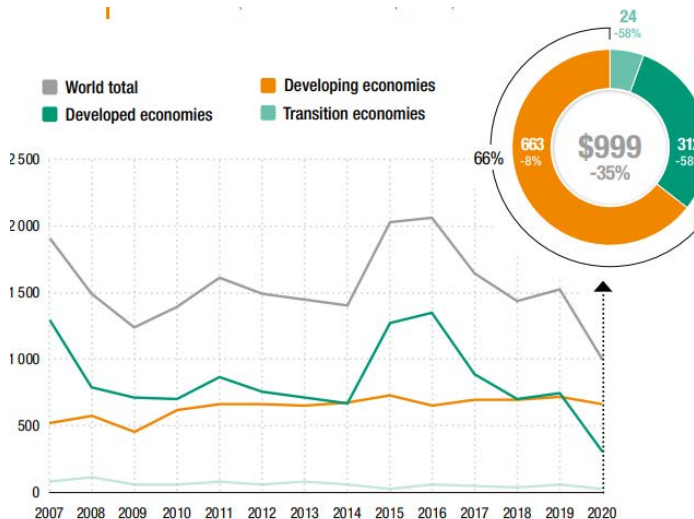
Source: RCEP legal text available at <https://rcepsec.org/legal-text/>

III. Contextual Considerations

1. Recent Developments in the Global Investment Landscape

Ongoing efforts to agree a WTO framework on investment facilitation for development cannot be divorced from the challenging global economic context, within which the negotiations are currently proceeding and aim to conclude. The COVID-19 pandemic has had far-reaching impacts on global trade and investment activity, with continued uncertainty over the nature, depth, and speed of recovery affecting investment decisions on a global scale. Data from UNCTAD's Global Investment Trends Monitor point to a record 42% drop in foreign direct investment (FDI) flows in 2020 compared to 2019, a trend largely attributable to the economic fallout from COVID-19. FDI levels finished 2020 more than 30% lower than those observed after the global financial crisis of 2009 (UNCTAD, 2021). Pandemic-induced lockdowns around the world slowed existing investment projects, with lingering recessionary fears prompting multinational enterprises to reassess new projects. The FDI decline that came in COVID-19's wake accentuated and accelerated the downward trend in global FDI flows observed since 2015 (Figure 2).

Figure 2. FDI Inflows, Global and by Groups of Economies, 2007-20 (billions)



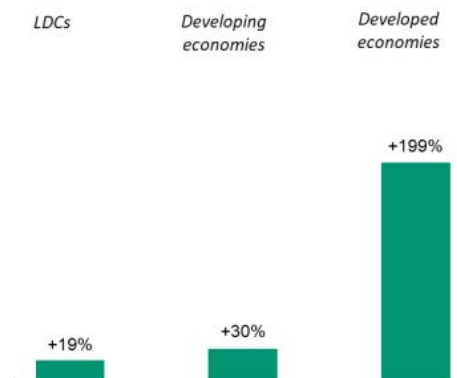
Source: UNCTAD (2021), World Investment Report 2021.

FDI data for 2021 offer evidence of a significant recovery in global investment activity, with aggregate flows surpassing their pre-COVID-19 level to reach 1.58 trillion, a 64% year-on-year rise. But this recovery remains fragile and highly uneven, with FDI flows to developed economies accounting for 75% of the total 'recovery increase' in global FDI flows registered in 2021. Figure 3 shows that while high-income countries registered a 199% increase in FDI flows, middle-income countries saw a more modest 30% increase, while low-income countries registered a 19% gain.

The global FDI outlook for 2022 remains clouded by a host of factors weighing on the world economy. These include the lingering presence of the pandemic and the uneven pace of vaccination, especially in developing countries, and the speed of implementation of major infrastructure stimulus projects. Other major risk factors include labor shortages, supply chain bottlenecks, and, most recently, the conflict in Ukraine, which is fueling mounting inflationary pressures, particularly on energy and food prices. The tightening of monetary policy conditions in response weighs increasingly negatively on global investment and growth prospects.

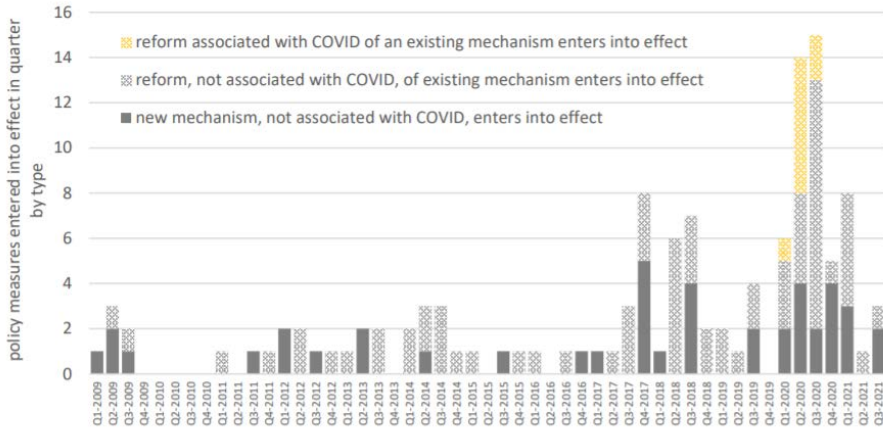
Recent monitoring by the OECD and UNCTAD of investment policy trends in the world's leading economies suggests that the COVID-19 pandemic has accelerated ongoing changes in policy approaches towards FDI. The global health crisis has notably fueled the introduction of stricter investment-screening procedures aimed at countering potential threats to essential security interests that might be associated with foreign investment in the health and other strategic sectors.

Figure 3. Growth of FDI by income group in 2021



Source: UNCTAD (2022).

Figure 4. Introduction or Reform of Investment Policies in G20 Members to Safeguard Essential Security Interests, Q1-2009 to Q3-2021



Source: OECD-UNCTAD (2021).

The extent to which the forces depicted above exert lasting effects on investment policymaking remains an open question. On the one hand, recent developments may give added impetus to the recent trend towards more restrictive admission policies in sectors deemed of critical importance to host countries. At the same time, by highlighting the need for supply-chain diversification in sectors prone to high levels of producer concentration, the pandemic and mounting geopolitical tensions could trigger intensified locational competition over FDI, as economies position themselves to profit from the possible reallocation or nearshoring/friendshoring of specific supply chains. Mirroring the strong boost that the COVID-19 crisis has given to digitized transactions of all sorts, heightened recourse may also be expected in future to online administrative approval procedures for investors and their key personnel. Such a trend recalls how an IFD framework favoring the adoption of electronic applications and e-governance solutions can lend support to global recovery efforts. UNCTAD's World Investment Report 2020 documented how governments responded to COVID-19 dislocations by taking various facilitative steps aimed at reducing administrative burdens weighing on foreign investors (Box 2).

Box 2. COVID-19 Induced Steps to Facilitate Investment

Several countries (e.g. China, Myanmar, Serbia, Thailand) have taken steps to alleviate the administrative burden for firms and to reduce bureaucratic obstacles, with the aim of speeding up production processes and the delivery of goods during the pandemic (Box Figure 1). Measures include, for instance, the acceleration of approvals for investments in labor-intensive and infrastructure projects, faster approvals for healthcare and medical-equipment businesses, and the reduction of investment application fees. Other examples include extensions in the validity of identity documentation, and residence and work permits for legally-present foreign workers until the end of the pandemic, avoiding the need for renewal procedures. The pandemic and the resulting closure or disruption of regular governmental services have also accelerated the use of online tools and e-platforms that enable the continuity of essential services.

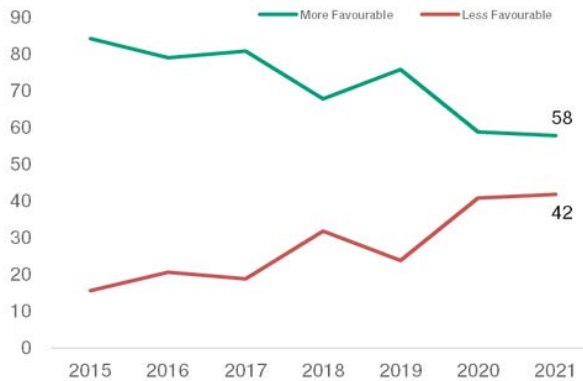
Box Figure 1: Main Investment Facilitation Responses to the COVID-19 Pandemic



Source: UNCTAD (2020a).

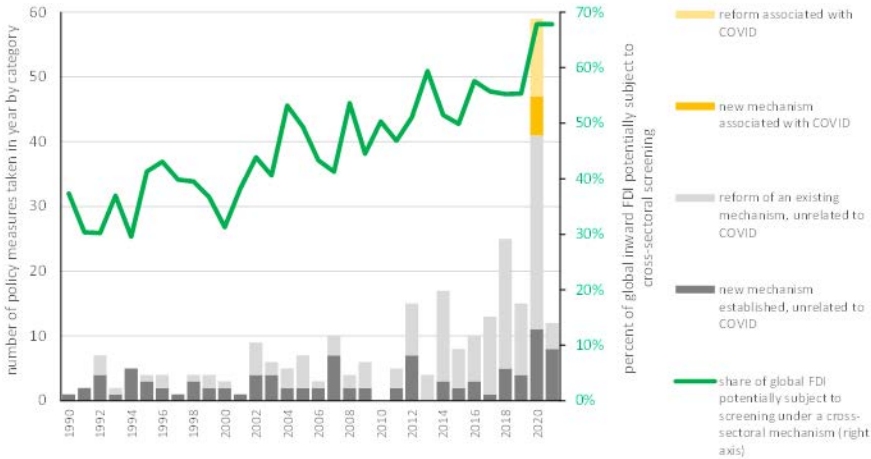
Figures 5 and 6 provide two more justifications for Morocco's stepped-up interest in the ongoing IFD discussions, documenting the marked hardening in host-country policy stances towards FDI, with yearly changes in restrictive or regulatory-tightening FDI measures standing a 42% in 2021, the highest level ever recorded. These represented less than 10% of policy changes in the early 2000s. Figure 6 depicts one of the main reasons for the observed rise in FDI policy restrictiveness, showing the increasing recourse of host countries to tightened FDI screening procedures. The latter were boosted by the COVID-19 pandemic and by heightened sensitivities over the outward foreign investment activities of firms that have enjoyed strong state support in recent years.

Figure 5. Yearly Changes in the FDI Policy Stance of Host Countries, 2015-21



Source: UNCTAD (2022a).

Figure 6. Trends in the Incidence of FDI Screening Procedures, 1990-2021



Source: OECD.

2. Recent Developments in the Moroccan Investment Context

Morocco is widely regarded as offering an attractive investment climate, anchored by a sophisticated investment promotion ecosystem. The country enjoys political stability, quality infrastructure, and a strategic location. Such endowments have fueled its emergence as a regional manufacturing and export base for multinational firms in manufacturing and service industries alike. Morocco has long pro-actively encouraged and facilitated foreign investment, particularly in export-oriented, efficiency-seeking, activities. Morocco is one of only a handful of countries able to boast FDI-inducing free trade relationships with both the United States and the European Union. The country's integration strategy has in recent years focused increasing attention on strengthening Morocco's relationship with African neighbors, culminating most recently with Morocco's leadership role in helping establish the African Continental Free Trade Area (AfCFTA).

Morocco has not escaped the disruptive trends that have engulfed the world economy; Morocco has experienced a marked contraction in its economic activity. The pandemic's fallout has added fuel to ongoing debates on the Kingdom's growth model, and its long-standing commitment to policies engaging world markets. While Morocco's policy stance on foreign investment offers few if any signs of change in the wake of the COVID-19 pandemic, care will need to be

taken to ensure that the country's investment climate is not adversely affected by the more inward-looking tendency of some recent Moroccan trade and industrial policy decisions.

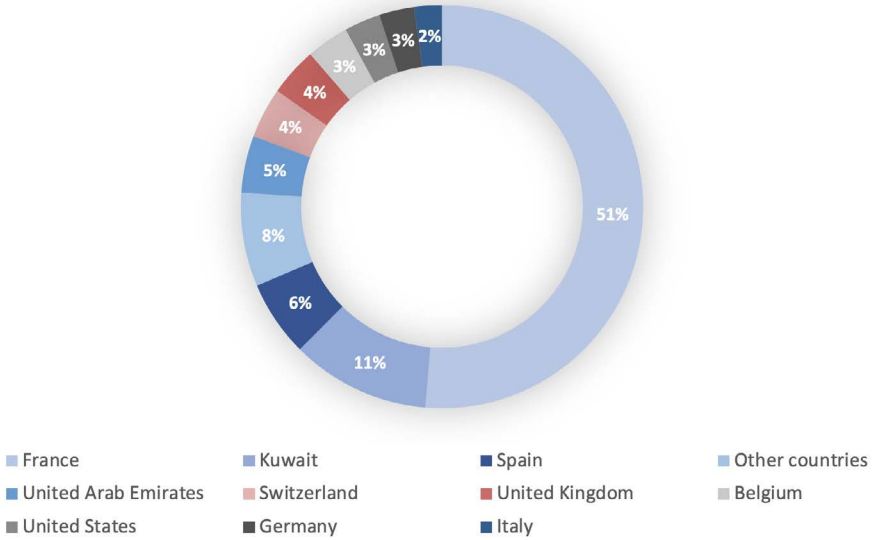
Like many developing countries, Morocco recently completed a revision of its bilateral investment treaty model, adopting provisions aimed at striking a better balance between home- and host-country rights and obligations, recalling the need for FDI to serve sustainable development goals, and affirming the right to regulate investment in the public interest⁹. The Kingdom's decision to formally join structured discussions on IFD in March 2020, and to engage in the negotiations at the WTO, suggests a readiness to take additional steps to enhance the country's investment climate, attract the extra volumes of quality FDI needed to speed up recovery, and to position Morocco to take advantage of the expected post-COVID-19 supply-chain diversification efforts of leading manufacturers.

Figures 7 to 10 depict relevant trends in Moroccan FDI inflows over the past decade. Figures 7 and 8 show a notable diversification in terms of source countries, and a marked decline in FDI inflows from France, whose share in total Moroccan inward FDI dropped from 51% to 30% between 2009 and 2021, even as it remained Morocco's lead foreign investor over the period (Figure 9).

Figure 9 offers a sectoral look at trends in Moroccan FDI inflows since 2007, highlighting the rising importance of FDI in services, particularly banking and insurance, retail trade, construction, tourism, and telecommunications. While manufacturing retains the highest share of FDI stocks, and has seen a steady rise in FDI inflows since 2015, the overall FDI trends parallel ongoing structural changes in the Moroccan economy and the country's increasing specialization in tertiary activities.

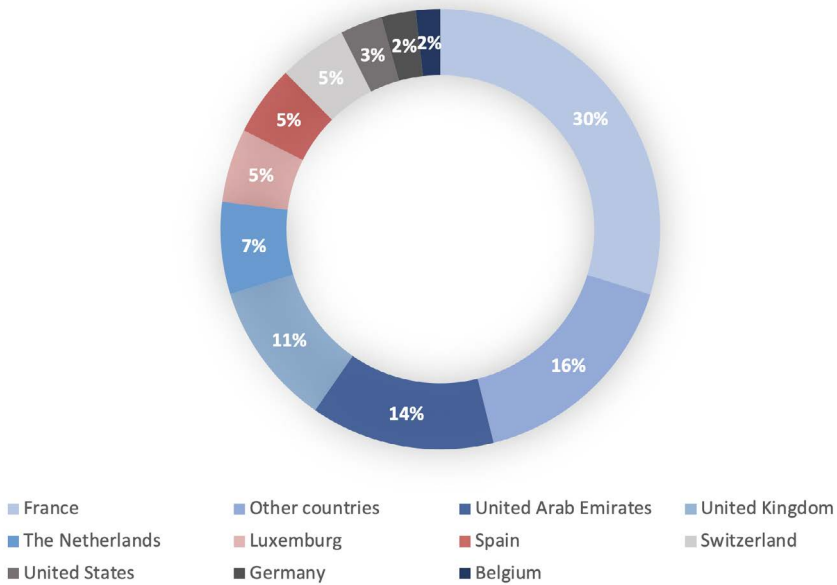
9. All are trends that mirror the emerging consensus in international rule-making. For a fuller discussion, see UNCTAD (2020).

Figure 7. Morocco: FDI Inflows Share by Country, 2009, %



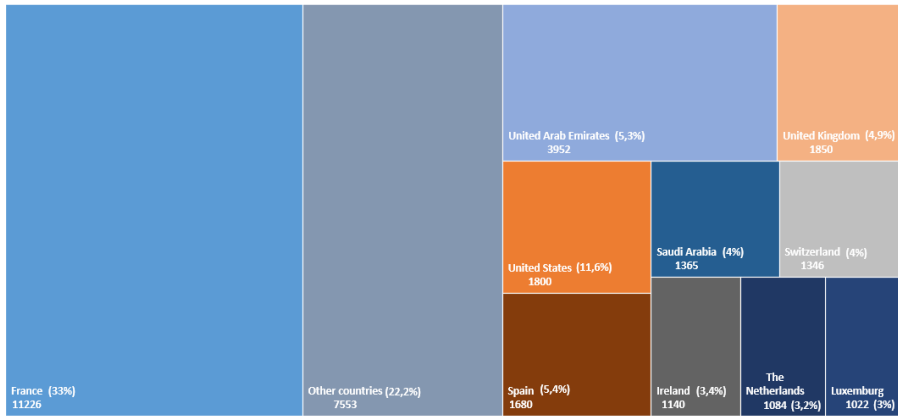
Source: Office des Changes du Maroc.

Figure 8. Morocco: FDI Inflows Share by Country, 2021, %



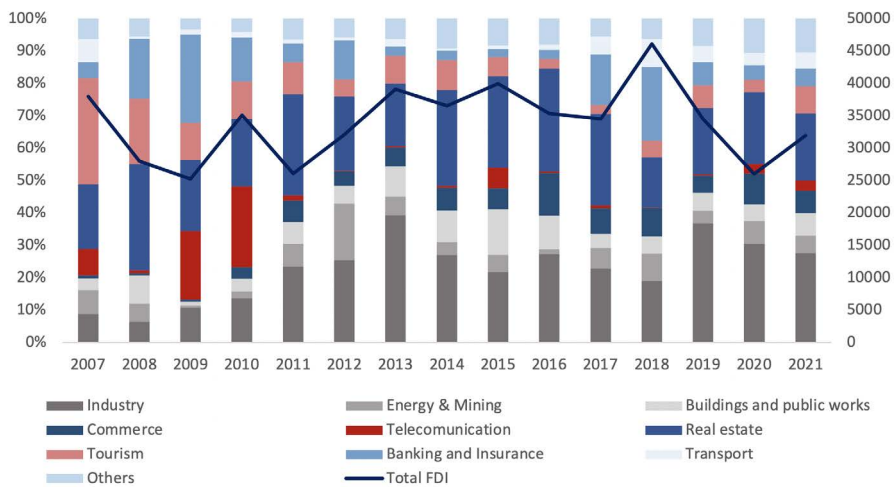
Source: Office des Changes du Maroc.

Figure 9. Morocco: FDI Inflows From Leading Source Countries, 2009–2020 average, % and million dirhams



Source: Office des Changes du Maroc.

Figure 10. Morocco: Sectoral Composition of FDI Inflows, 2007–2021, % and million dirhams

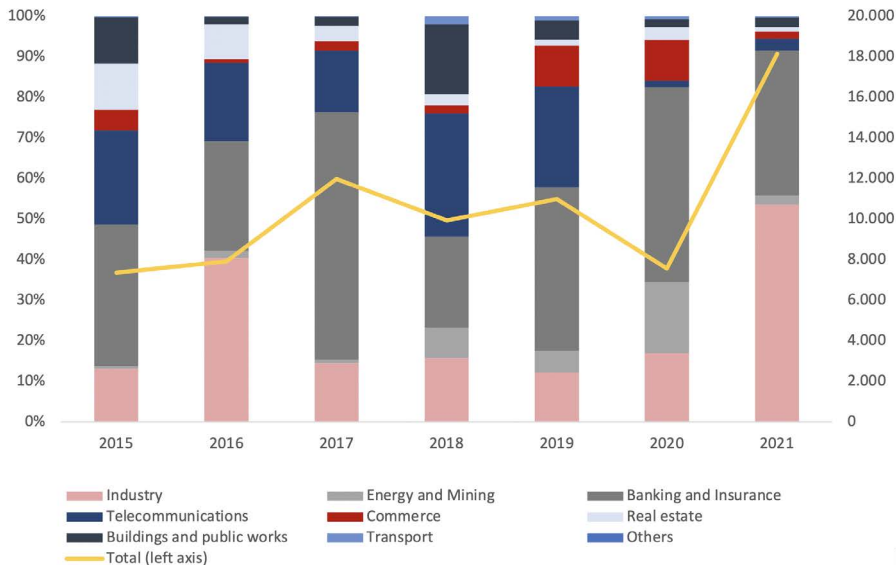


Source: Office des Changes du Maroc.

The COVID-19 pandemic has also strongly impacted Morocco's outward FDI activity (OFDI), which contracted by a third (32.8%) in 2020, to stand at 0.9 billion at the end of 2020, down from 1.3 billion a year earlier¹⁰. The drop reflects to a great extent the predominance of services in Moroccan OFDI. The service sector was particularly hard hit by pandemic-induced lockdowns and travel restrictions, which affected many activities with a greater need for face-to-face interaction between producers and consumers.

Despite the most recent downturn, Moroccan OFDI registered steady growth between 2015 and 2021, most noticeably on the African continent, where Moroccan firms in several sub-sectors, many with above-average knowledge intensity (e.g. finance, ICT, business advisory and professional services), have established service operations abroad (Figure 11). Figure 12 documents the latter trend, showing that nine African countries¹¹—Cote d'Ivoire, Egypt, Mauritius, Cameroon, Senegal, Chad, Burkina Faso, Mali, and Gabon—absorbed almost half (45.5%) of Morocco's aggregate OFDI from 2015 to 2021.

Figure 11. Moroccan OFDI Flows by Sector, 2015-2021, % and million dirhams



Source: Office des Changes du Maroc.

10. Office des Changes du Maroc (2021).

11. Listed here in order of importance of cumulative OFDI flows.

value) in seven of the last 10 years in Africa, and in five of the last 10 years in the MENA region (Table 1). The Kingdom's performance in FDI outflows has been strongest in its African periphery, with Morocco ranking as the continent's second or third leading source country in six of the past 10 years (Table 2).

Table 1. Morocco: FDI Inflows and Country Ranking in Africa and MENA, 2010-2020

Year	Value of FDI Inflows (US bn, net)	Rank in Africa (sample of 37 countries)	Rank in MENA (sample of 17 countries)
2010	1.57	9	10
2011	2.57	6	8
2012	2.73	7	9
2013	3.30	5	6
2014	3.56	6	5
2015	3.25	6	5
2016	2.16	6	8
2017	2.69	5	6
2018	3.56	5	6
2019	1.72	7	7
2020	1.76	7	7

Source: UNCTAD.

Table 2. Morocco: FDI Outflows and Country Ranking in Africa and MENA, 2010-2020

Year	Value of FDI Outflows (US bn, net)	Rank in Africa (sample of 37 countries)	Rank in MENA (sample of 17 countries)
2010	0.59	6	8
2011	0.18	5	12
2012	0.41	7	11
2013	0.33	7	9
2014	0.44	3	7
2015	0.65	2	8
2016	0.58	2	7
2017	1.02	3	8
2018	0.78	3	7
2019	0.89	2	5
2020	0.49	3	7

Source: UNCTAD.

The benefits of a WTO agreement on investment facilitation for development are likely to be greatest for Members with investment regimes that are most distant from best-practice frontiers. This does not appear to be the case for Morocco, where the investment policy ecosystem arguably ranks amongst the most sophisticated within the lower-middle income group.

Morocco ranked 77 (out of 131 economies reviewed) in the World Intellectual Property Organization's (WIPO) Global Innovation Index (GII) 2021 report,

a slight improvement over its 2015 GII ranking of 78 (out of 141 economies)¹³. Data from the 2021 GII report show that, within its peer group of lower-middle income countries, Morocco scores above average in five of the seven GII pillars: Institutions, Human capital and research, Infrastructure, Knowledge and technology outputs, and Creative outputs. Conversely, Morocco scores below average for its income group in two GII pillars: Market sophistication, and Business sophistication (Figure 13).

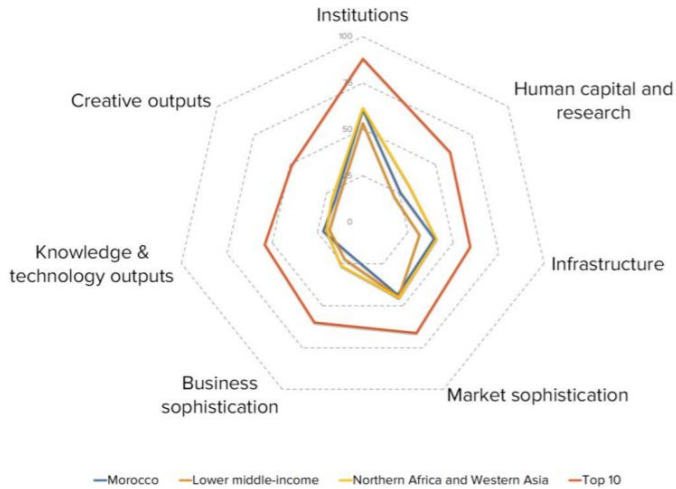
A further indicator of significance characterizing Morocco's investment climate relates to the Kingdom's policy stance in services, a sector of increasing importance to both its domestic and international performance¹⁴. The impact of policy measures in the sector is captured in the World Bank Group's Services Trade Restrictiveness Index (STRI). STRI data reported in Figure 14 show that, relative to regulatory conditions governing cross-border supply (so-called Mode 1 trade in services), and the movement of service suppliers (Mode 4 trade), the policy environment governing services trade in Morocco is least restrictive with regard to trade occurring through an established presence (Mode 3 trade in services). Moroccan policy in services, particularly in relation to investment-related trade, remains open overall, and has not become more restrictive in recent years. This is so even as foreign presence limitations mirroring those found in many WTO Members remain in a number of sectors, notably road and air transport, professional services, and insurance services¹⁵.

13. A measure of Morocco's progress on innovation can be seen from the fact that the Kingdom ranked 94 out of 125 economies surveyed when the first edition of the Global Innovation Index report was produced in 2011.

14. Two further metrics often seen as relevant in assessing investment climates relate to respect for the rule of law and perceptions of corruption. The World Justice Project's Global Rule of Law Index ranked Morocco 79th out of 128 countries in 2019, down significantly from the Kingdom's 55th rank (out of 102 countries) in 2015 (see <https://worldjusticeproject.org/rule-of-law-index/country/2020/>). Meanwhile, Transparency International's Corruption Perception Index ranked Morocco 80th out of 198 economies in 2019, an 8 step improvement over the country's ranking in 2015 (see <https://www.transparency.org/en/cpi>).

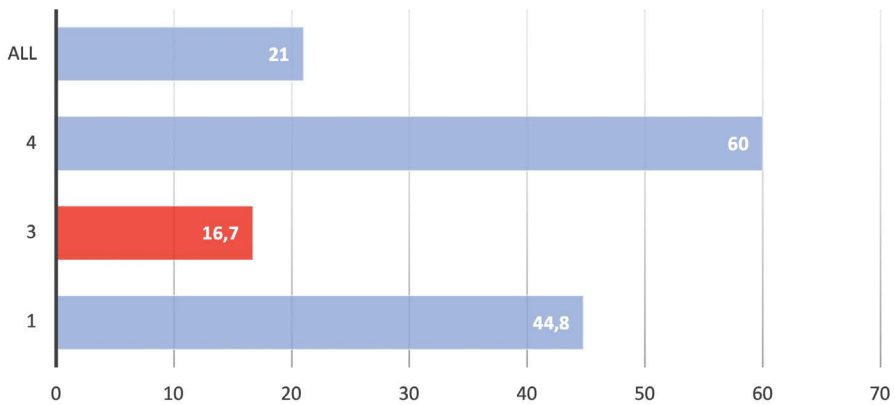
15. WTO (2015), Trade Policy Review of the Kingdom of Morocco: Report by the Secretariat, WT/TPR/S/329, (7 December), Geneva: World Trade Organization. Available at https://www.wto.org/english/tratop_e/tp_r_e/s329_e.pdf.

Figure 13. Morocco, Global Innovation Index Performance, 2021



Source: WIPO (2020).

Figure 14. Morocco, Services Trade Restrictiveness Index by Mode of Supply, 2020



Source: World Bank (2020a).

IV. Addressing Moroccan Policy Concerns

1. The scope of any future multilateral IFD Agreement, particularly its development-related provisions and its contribution to achieving the Sustainable Development Goals (SDGs)

While the ongoing iteration of an informal consolidated text put forward under the responsibility of the Coordinator of IFD talks represents an important step forward in anchoring negotiations in textual proposals, it remains difficult at time of writing to speculate on the ultimate scope of an IFD agreement. Negotiations are still ongoing, take place in a virtual format which precludes formal decision-making, and continue to be fed by WTO Member submissions. Important questions remain to be clarified, for instance on the hortatory (i.e. soft law or best endeavors) or legally enforceable nature of various treaty provisions, or on whether IFD disciplines predicated on alternative views of the relationship between international investors and host states, and the best means of addressing investment-related grievances, require recourse to the WTO's dispute settlement mechanism.

1.1 Development Provisions

The large number of developing country proponents of an IFD has meant that the issue of development has been at the core of discussions from the outset, with talks centered on ways to facilitate greater participation in global investment flows of developing and least-developed Members. The approach taken to date towards the development dimension of a possible agreement, and the differentiated implementation modalities being considered, mirror the novel approaches agreed to under the WTO's landmark 2013 Trade Facilitation Agreement (TFA), with three distinct categories of disciplines being envisaged: (i) those that can be assumed on the entry into force of the agreement (so-called Measures A); (ii) those for which implementation can be phased-in over transitional periods (Measures B); and (iii) those for which more challenging implementation implications are contingent on the supply of sufficient technical assistance, aimed at raising the capacity of the Members concerned to comply with agreed disciplines (Measures C).

The relative sophistication of Morocco's investment policy environment implies that the Kingdom already has in place most of the IFD provisions under

discussion in WTO talks, and should accordingly be able to implement when an agreement enters into force. This is the case, for instance, with the many single-window functions already assumed by AMDIE, Morocco's trade and investment promotion agency, and by the regional investment centers (Centres Régionaux d'Investissement) found throughout the Kingdom, with regard to information on investment-related laws, regulations and administrative procedures, market opportunities, and available incentive schemes. Similarly, calls voiced in the IFD context to establish a National Investment Facilitator and/or an Investment Ombudsperson tasked with, among other things, addressing investor grievances, have already been anticipated in Morocco's recently revised investment treaty model through the establishment of a National Focal Point (Article 27), and in Morocco's Investment Charter of 1995. This is not to suggest that some proposed IFD provisions, such as those relating to the establishment and maintenance of a database of local suppliers for use by prospective foreign investors, or the assignment to existing Moroccan investment promotion institutions of additional obligations flowing from the adoption of a WTO IFD framework, could not require additional time to implement and entail new resource commitments. It should be recalled that the implementation burden of a prospective WTO IFD framework may be reduced by the hortatory (i.e. best endeavor) nature of a number of proposed treaty provisions.

Experience gained under the WTO's TFA suggests that WTO Members at Morocco's level of economic and institutional development are less likely to face the need to encounter implementation challenges of the type envisaged by category C measures. This should not, however, constrain Morocco's quest for technical assistance from leading donors and international organizations, aimed at helping design new, or improve existing, investment facilitating instruments and processes to ensure the country's full and speedy compliance with agreed rules. As in the case of the TFA, there is every reason to believe that a completed agreement would trigger the supply of sufficient aid for trade by donors in assisting the implementation efforts of developing countries at all income levels.

1.2 Sustainable Development

A core aim of a WTO agreement on IFD is to facilitate and induce not only greater volumes of foreign direct investment, but also more sustainable FDI by encouraging signatories to adopt facilitation measures specifically aimed at increasing the development impact of FDI. Doing so would help ensure that the negotiated outcome is fully reflective of the "for development" dimension of the proposed IFD framework. In common with Morocco's recently revamped bilateral investment treaty model, which places sustainability—understood in its

economic, social, and environmental dimensions—at the core of the country’s investment policy aims, the draft Preamble and Objectives of the incipient IFD framework recall the need for cross-border investment to serve sustainability aims and to help achieve the 2030 Sustainable Development Goals.

The IFD Coordinator’s informal consolidated text aggregating the various proposals in the IFD negotiations places sustainability at the very top of the draft agreement’s preambular considerations and objectives. Draft preambular language recalls how economic and social development and environmental protection form interdependent and mutually reinforcing components of sustainable development, and the role FDI can play in the achievement of the goals defined under the 2030 Agenda for Sustainable Development of the United Nations. The draft Preamble further recognizes the importance of good corporate governance and corporate social responsibility, and the need to encourage firms to adhere to and observe internationally recognized guidelines and principles in this respect, and to abide by private international standards of responsible business conduct. Draft preambular language also aims to reaffirm the commitment of WTO Members to prevent and combat corruption in international trade and investment, and to promote the principles of transparency and good public governance.

While preambular provisions do not constitute legally binding and enforceable obligations, they provide context on how substantive treaty obligations should be interpreted. Placing sustainable development at the very top of the preamble, alongside objectives such as promotion of responsible business conduct, combating corrupt practices, and strengthening economic cooperation, usefully recalls the foundational basis upon which the IFD treaty rests, and would need to be interpreted.

The sustainability aims of the proposed IFD framework are given added operational meaning in Section VI of the draft treaty, which deals with two cross-cutting issues: corporate social responsibility/responsible business conduct and measures against corruption. Treaty provisions in both cases will almost certainly be framed in soft-law terms, given the reluctance of governments to assume enforceable obligations in relation to the conduct of private actors. An IFD framework would nonetheless encourage WTO Members to act in accordance with the relevant internationally agreed instruments they have endorsed, including the United Nations (UN) Global Compact, the UN Convention against Corruption, the UN Guiding Principles on Business and Human Rights, the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy, the OECD Guidelines for Multinational Enterprises, and relevant instruments relating to taxation. Such provisions mirror language already found in Articles 18.7, 18.9, and 20 of the

new Moroccan BIT model¹⁶.

IFD signatories will also likely be encouraged to enact a range of sustainability-enhancing measures, including: (i) encouraging investors to use technologies that contribute to sustainable development; (ii) respecting the human rights of all stakeholders related to the investment's activities; (iii) calling on firms to implement due diligence and principles of sound corporate governance in order to identify and address adverse impacts, such as on the environment and labor conditions, in their operations, their supply chains, and other business relationships.

While IFD proposals on sustainability-related issues are not yet agreed, they broadly align with the core policy aims of the Moroccan investment policy, with specific provisions of the Kingdom's new bilateral investment treaty model, and with the precedent set in the bilateral cooperation and facilitation agreement Morocco reached with Brazil in 2019. For this reason, their adoption and implementation in a WTO context should not prove problematic.

Beyond the contribution that a WTO IFD framework can make by reaffirming the importance of SDG aims and directing non-binding provisions to their pursuit, there is much that Moroccan investment policy can do to promote heightened flows of sustainable investment at home and abroad. Domestically, Morocco's investment promotion agency (AMDIE) can, for instance, develop targeted marketing strategies facilitating sustainable FDI, offering privileged levels of pre-establishment and aftercare services to investors and investments that have a significant positive sustainable development impact. Borrowing from the TFA's concept of 'recognized operators', a special category of 'Recognized Sustainable Investors' (RSI), meeting a set of sustainability metrics, could be created to incentivize investors to invest sustainably. Morocco can also designate a national CSR coordinator to facilitate investor relations with local communities, stakeholder associations, and civil society. It could also strengthen existing procedures aimed at measuring the potential development impacts of large FDI projects through ex-ante impact assessments, to ensure that they align with sustainable development goals.

As an increasingly important FDI source country, Morocco can also enact measures aimed at ensuring the greater compliance of its own investors with standards of responsible business conduct and anti-corrupt practices in their operations abroad. Steps that home countries can take in this regard include providing clear guidelines linking home-country support measures to the observation of internationally recognized standards of responsible business conduct. The production of ex-ante developmental, environmental, and social

16. See El-Kady, Hamed et Yvan Rwananga (2020).

impact assessments can also be required of foreign investments with significant sustainability footprints.

2. The impact of joining a WTO IFD Agreement on Morocco's existing and newly adopted model of investment promotion and protection, given Morocco's status as both an FDI recipient and source country

While steps taken to facilitate investment overlap to some degree with measures relating to the promotion of cross-border investments, they typically complement each other. Investment promotion focuses on measures and programs directed at influencing the locational decisions of international firms that are generally country-specific and innately competitive in nature, while investment facilitation is first and foremost about making it easier for investors to establish and expand their investments and to more easily conduct their day-to-day business in host countries¹⁷. Seen this way, a WTO IFD Agreement would complement, reinforce, and add investment facilitating granularity, while not overlapping with Morocco's existing international investment instruments.

As noted above, Morocco has revamped its investment treaty model to rebalance treaty obligations applicable to host countries and foreign investors, at a time of mounting investor-state litigation and concerns about the unbalanced nature of older-generation investment treaties¹⁸. It has also done so to reaffirm its right to regulate foreign investments in its territory with a view to securing compliance with legitimate public-policy objectives. In launching structured discussions on investment facilitation for development, participating WTO Members explicitly agreed from the outset that the scope of a future IFD framework would not cover issues of market access (i.e. right of establishment, admission and liberalization of investment measures), investment protection, and investor-state dispute settlement. This is already evidenced in consensual language found in the informal consolidated text, and needs to be considered alongside ongoing efforts to create a firewall between a WTO IFD framework, and the commitments entered into by prospective signatories under existing international investment treaties to which they are party. Accordingly, Morocco's decision to join a WTO IFD framework would not affect the investment protection disciplines found in Article 6 of its new investment treaty model.

17. See UNCTAD (2016).

18. See UNCTAD (2020a).

Provisions on investment promotion can be found in Article 5 of Morocco's new investment treaty model. Such provisions, all of which are framed in hortatory terms, call on Parties to “*encourage and create favorable conditions for investors of the other Party to make their investments in each other's territories*” (Articles 5.1 and 5.3) and to “*grant the necessary facilities and permissions for the entry, stay and work of the investor of the other Party and of any person having a permanent or temporary relationship with the investment such as administrators, experts and the technicians*” (Article 5.2). The treaty model further calls on Parties to “*consult each other periodically on the possibilities of investment in their territory in different sectors of the economy in order to determine which are the reciprocal investments which could be most beneficial to both Parties and to grant them appropriate facilities, incentives and other encouragement to the extent and under the conditions that the Parties shall periodically determine by mutual agreement*” (Article 5.4). As for investment protection, Morocco's decision to join a possible WTO IFD framework would not affect, but would rather complement and strengthen, its ability to promote the Kingdom as an attractive investment location, and to offer a best-practice toolkit with which to support investment promotion efforts by facilitating the entry and operation of foreign investors and their investments in its territory.

Morocco's emergence as an increasingly important source country implies that the Kingdom's own investors could benefit significantly from the contribution that a WTO IFD framework can make to strengthening the investment promotion and facilitation regimes of destination countries. This is all the more important given the rising share of Moroccan OFDI directed to African economies, where the investment climates and doing-business conditions may represent sources of FDI-deterring or grievance-inducing policy uncertainty that greater compliance with IFD disciplines could help address and mitigate.

3. The changes that a possible WTO IFD Agreement might entail for Morocco's Investment Charter

Morocco's investment regime is governed by the Kingdom's Investment Charter, established in October 1995 (Loi-cadre n°18-95). This sets out the country's fundamental development and investment promotion objectives. The Charter affirms the aim of improving Morocco's investment climate and business environment and outlines the range of tax and other investment incentives available in pursuit of these aims. An updated version of the Charter, with aims including the enhancement of Morocco's investment climate, deepening the country's role as a regional and continental production hub, and increasing exports, was sent in July 2022 to the Moroccan Parliament for approval.

Several Charter provisions address issues under discussion in ongoing IFD talks at the WTO, some at a broad level of generality akin to preambular considerations, others targeting more concrete ways of operationalizing key IFD provisions. Article 2 of the Charter typifies the former by recalling the need to reduce investment costs and protect the environment. Examples of the latter include Article 21 of the Investment Charter, which mirrors calls made in the Coordinator's Informal Consolidated Text for single window-type instruments, by creating a unified national investment body through the establishment of an administrative entity responsible for *“welcoming, guiding, providing information and assistance to investors as well as for investment promotion”*. Such one-stop shop tasks are today assumed by AMDIE, Morocco's investment and trade promotion agency, pursuant to Law 60-16 of November 2017¹⁹, and the network of regional investment promotion antennas (Centres Régionaux d'Investissement). Meanwhile, in reducing and simplifying investment-related administrative procedures, a central aim of the proposed WTO IFD framework, Article 22 of the Charter calls for the use of *“silent procedures”*, such that *“in all cases where the maintenance of an administrative authorization for the granting of advantages provided for by this framework is necessary, this authorization is supposed be granted when the administration has kept silence for a period of sixty days to from the date of filing of the said application.”*

As the above suggests, the relationship between a WTO IFD framework and Morocco's 1995 Investment Charter is one of complementarity rather than of overlap or inconsistency. A WTO IFD agreement would not discipline the granting of investment incentives made available under the Investment Charter, a subject area in which no multilateral disciplines currently exist. Rather, the purpose of an IFD framework would be to ensure that information on incentives on offer to investors, and the administrative procedures required to access them, is transparent, easily accessible, and streamlined in such a way as to facilitate, reduce the cost of, and speed up investment projects.

19. See <http://extwprlegs1.fao.org/docs/pdf/Mor171916.pdf>.

V. Concluding Observations and Key Takeaways

Morocco's decision to join the plurilateral negotiations on investment facilitation for development currently proceeding at the WTO is a positive sign of the country's stepped-up engagement on a frontier issue in trade governance. The various provisions being discussed in the IFD talks point to a possible outcome largely akin to a codification, in a multilateral context, of practices and policy orientations broadly aligned to the aims pursued by Morocco's investment policy, and found in the Kingdom's newly reformed bilateral investment treaties (BITs), in the FDI-facilitating role assigned to the Kingdom's Centres Régionaux de l'Investissement, and in the Kingdom's 1995 Investment Charter (*Charte de l'Investissement*) and its most recent iteration, which at time of writing is before the Moroccan Parliament.

Morocco's policy stance towards foreign investment offers few if any signs of change in the wake of the COVID-19 pandemic. Like many other developing countries, Morocco recently completed a revision of its bilateral investment treaty model, adopting provisions aimed at striking a better balance between home- and host-country rights and obligations, recalling the need for FDI to serve sustainable development goals, and affirming the right to regulate investment in the public interest²⁰. Morocco's decision to formally join structured discussions on IFD in March 2020, and to engage in the negotiations at the WTO, suggests a readiness to take additional steps to enhance the country's investment climate, attract the quality FDI needed to speed up recovery, and position Morocco to take advantage of the diversification of supply chains by leading manufacturers that the COVID-19 pandemic could potentially induce.

By addressing a range of best practice facilitation issues that are not currently embedded in Morocco's investment treaties, a WTO framework on IFD represents a useful, investment-climate enhancing, complement to existing Moroccan practices, the overall level of development of which suggests that compliance with new WTO disciplines is unlikely to prove contentious or unduly onerous. Such investment climate-enhancing disciplines may however come in handy at a time of intensifying post-COVID-19 locational competition over FDI, and to help put into context the recent inward-looking shift in the country's trade and industrial policy mix.

The benefits of a WTO agreement on investment facilitation for development are likely to be greatest for Members with investment regimes that are most distant from best-practice frontiers. This does not appear to be the case for

20. All are trends that mirror the emerging consensus in international rule-making. For a fuller discussion, see UNCTAD (2020a).

Morocco, where the investment policy ecosystem arguably ranks amongst the most sophisticated within the lower-middle income group.

The rising importance of services in Morocco's inward and outward FDI portfolio heightens the relevance of the red-tape and transaction cost-reducing properties of the investment facilitation disciplines under discussion in ongoing WTO negotiations. This is because most service sectors face a high degree of regulatory intensity, involving compliance with the requirements of a multiplicity of line ministries and governmental agencies responsible for domestic regulatory regimes, licensing, recognition, contractual, and other administrative procedures, which can all too easily deter entry or raise costs for established operators.

Morocco's emergence as an important source country, particularly in Africa, suggests that a plurilateral agreement on IFD could generate positive impacts for Moroccan investors by strengthening the investment regimes in those countries to which rising levels of Moroccan FDI have in recent years been directed, and where the legal and administrative frameworks and investment climates may not be as developed, open, or facilitative as those of Morocco.

The development dimension of a possible IFD agreement, and the differentiated implementation modalities being considered by WTO Members, mirror the novel solutions agreed to under the WTO's 2013 Trade Facilitation Agreement (TFA), with three distinct categories of disciplines being envisaged: (i) those that can be assumed on entry into force of the agreement (so-called Measures A); (ii) those for which implementation can be phased-in over transitional periods (Measures B); and (iii) those for which more challenging implementation implications are contingent on the supply of adequate technical assistance, aimed at raising the capacity of the Members concerned to comply with agreed disciplines (Measures C). The sophisticated nature of Morocco's investment policy and promotion ecosystem suggests that Morocco already has in place in large measure the IFD provisions under discussion in WTO talks. They should, accordingly, be largely implementable on an agreement's entry into force. This does not, however, preclude Morocco from seeking technical assistance from various donors or international organizations, in order to enhance or speed up compliance with IFD framework-related implementation needs.

A core aim of a WTO agreement on IFD is to facilitate and induce not only greater volumes of foreign direct investment, but also more sustainable FDI, by encouraging signatories to adopt facilitation measures specifically aimed at increasing the development impact of FDI. The Coordinator's informal consolidated text aggregating the various proposals in the IFD negotiations, places sustainability at the very top of the draft agreement's preambular considerations and objectives. While preambular provisions do not constitute

legally binding and enforceable obligations, they provide context on how substantive treaty obligations should be interpreted. While IFD proposals on sustainability-related issues are not yet agreed, they align with the centrality attached to sustainability-related issues in Morocco's existing investment instruments. For these reasons, their adoption and implementation in a WTO context should not prove problematic.

Beyond the contribution that a WTO IFD framework can make, by reaffirming the importance of SDG aims and directing non-binding provisions to their pursuit, there is much that Moroccan investment policy can do to promote heightened flows of sustainable investment at home and abroad, notably by designing 'red carpet' programs or implementing 'recognized sustainable investor' certification systems targeted at investors and investments featuring the most attractive sustainability characteristics.

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ANNEX – MAIN PROVISIONS OF A MULTILATERAL FRAMEWORK ON INVESTMENT FACILITATION

PREAMBLE

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MOST-FAVOURLED NATION TREATMENT

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FACILITATION OF MOVEMENT OF BUSINESS PERSONS FOR
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[SECTION III TER: TRANSFERS AND SUBROGATION]**SECTION IV: CONTACT/FOCAL POINT/OMBUDSPERSON TYPES OF MECHANISMS, ARRANGEMENTS TO ENHANCE DOMESTIC COORDINATION AND CROSS-BORDER COOPERATION ON INVESTMENT FACILITATION**

CONTACT /FOCAL POINT/OMBUDSPERSON TYPES OF MECHANISMS

[NATIONAL INVESTMENT FACILITATOR]

DOMESTIC REGULATORY COHERENCE

[DOMESTIC SUPPLIER DATABASES]

CROSS-BORDER CO-OPERATION ON INVESTMENT FACILITATION

SECTION V: SPECIAL AND DIFFERENTIAL TREATMENT FOR DEVELOPING AND LEAST DEVELOPED COUNTRY MEMBERS

GENERAL PRINCIPLES

IMPLEMENTATION

NOTIFICATION OF DATES FOR IMPLEMENTATION OF CATEGORIES B AND C

GRACE PERIOD FOR THE APPLICATION OF THE UNDERSTANDING ON RULES AND PROCEDURES GOVERNING THE SETTLEMENT OF DISPUTES

[TECHNICAL ASSISTANCE AND CAPACITY BUILDING ON INVESTMENT FACILITATION FOR DEVELOPMENT]

SECTION VI: CROSS-CUTTING ISSUES

CORPORATE SOCIAL RESPONSIBILITY/[RESPONSIBLE BUSINESS CONDUCT]

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WTO COMMITTEE ON INVESTMENT FACILITATION

GENERAL EXCEPTIONS [TBD]

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DISPUTE SETTLEMENT [TBD]

FINAL PROVISIONS

9

ASSESSING MOROCCO'S POTENTIAL NEW PREFERENTIAL TRADE PARTNERSHIPS: INDIA, INDONESIA, MALAYSIA, AND VIETNAM

Aleksandar Stojanov & Jean-Christophe Maur

Introduction and Key Messages

This chapter assesses the potential for preferential trade partnerships with four Asian countries: India, Indonesia, Malaysia, and Vietnam (hereafter referred as IIMV). Three main questions are examined: (1) How important have preferential agreements between Morocco and its existing partners been for the development of Moroccan trade and Foreign Direct Investment (FDI)?; (2) What are the trade and FDI outlooks in relation to the four IIMV partners?; and (3) Are Morocco's trade policy goals aligned with the types of preferential trade agreements (PTAs) signed by these four prospective preferential trading partners?

Morocco is looking for alternative trade strategies as part of its objective of diversifying its exports and integrating into more sophisticated value chains. Are new preferential trade partnerships with dynamic Asian markets a good strategy in chasing such goals? Can promising prospects for the development of deeper

economic ties between Morocco and the IIMV be identified? Or alternatively, should trade and investment promotion efforts start elsewhere?

Key findings are as follows:

a. PTAs have had a significant impact on Morocco's trade and investment patterns, and have been associated with economic diversification leading to increased global value chain (GVC) participation

- Morocco's trade with existing PTA partners is linked with a significant diversification of exports from value added sectors, particularly in the case of the European Union—by far Morocco's main trading partner. Economic relations with the EU dominate Morocco's trade in goods and services, and to a significant extent, the investment pattern.
- Exports to Turkey and to member countries of the Pan Arab Free Trade Area (PAFTA) have also grown faster than the average, and have diversified towards textiles, electronics, and transport products, indicating possible positive spillover effects from trade and investment with the EU toward other markets.
- Morocco is a net exporter of services, more than doubling its services exports since 2005. The top three trade partners, the EU, the European Free Trade Association (EFTA) states, and the United States, are also PTA partners. Morocco is a net importer of services from the U.S., the only partner with which it has an agreement covering both goods and services.
- Morocco's trade liberalization has also been accompanied by a higher share of FDI coming from trade agreement partners: the top 12 investors in Morocco are preferential trade partners, with EU countries and the United Arab Emirates as leading investors. FDI from the U.S. has also grown in recent years.

b. Trade and FDI flows with IIMV countries are low and weakly diversified

- Generally, the complementarity of Morocco's trade in goods with the IIMV grouping is lower than with existing PTA partners.
- Exports to IIMV countries are generally modest and concentrated on a limited number of products. Exports to the four IIMV countries are dominated by phosphate exports to India, the largest trade partner of the four countries, and by mineral products. Some trade flows between Morocco

and IIMV countries, including exports of agricultural products, electronic circuits, textiles, and transport services, offer evidence of participation in cross-border production networks, not only at the goods level but also in commercial, transport, and travel services.

- Trade in services is highest with India, to which Morocco is a net exporter of services. Exports of services to India are almost equivalent to those of goods (\$1 billion in 2019 for services against \$1.2 billion for goods in 2018), mainly driven by commercial services, but are very low with the other countries in the IIMV group. Several sectors in which Morocco has a comparative advantage are likely to expand, such as tourism, transport, and ICT. However, IIMV countries still have a higher level of restrictions in services than Morocco's existing PTA partners.
- While Morocco has overall not received much FDI from the four countries, except to some extent investments from India of relative significance, India and Malaysia are large investors abroad with relatively significant volumes of investments in sectors in which Morocco has comparative advantage (tourism, transport equipment, ICT, and electronics).

c. Insights from IIMV and Moroccan preferential trade policies

- If Morocco today participates in a relatively small number of agreements, compared to other WTO members, much of its trade takes place under low or duty-free tariffs since most of its trade is with PTA partners. Morocco has agreements with two of the world's largest economies: the EU and the U.S. Exports to preferential partners represent about 75% of total exports. Adding duty-free access to markets in Africa will considerably increase the number of trading partners for Morocco, and would offer a more modest but not negligible prospect in terms of market access.
- Considering current levels of MFN tariffs, the types of concessions granted in existing agreements, and the geographical focus of trade partnerships, existing preferential trade strategies in Morocco and IIMV countries do not demonstrate significant scope for mutually agreeable concessions. This means that closer economic integration between Morocco and IIMV would need to go further than traditional agreements that focus simply on goods and immediate neighbors.
- IIMV countries have concluded several trade agreements in recent years, but very few with non-traditional partners outside of their neighborhoods. However, there is evidence of interest by Malaysia and India in reaching out to Arab countries, the Gulf Cooperation Council notably, though

discussions have yet to lead to substantial results. India has also expressed an interest in Africa, and Malaysia has an FTA with Turkey.

- There is limited scope for significant tariff preferences, given relatively low existing MFN tariffs and evidence of limited liberalization with existing partners (e.g. India for most sectors). IIMV countries tend to have relatively high non-tariff measures (NTMs) that are left relatively untouched in PTAs.
- IIMV countries tend to increasingly sign 'deep' trade agreements that cover not only trade in goods but also services, investment, and other regulatory measures. The deep PTAs entered into by IIMV countries (other than India) typically feature a broader and deeper range of legally binding and enforceable provisions and commitments. NTMs and restrictions on trade in services and investment are significant according to available metrics, which suggests that deep trade agreements are indeed needed to secure greater access to these markets.
- Morocco has so far signed only one agreement covering trade in services with the U.S. Asymmetric negotiation and the U.S.'s ability to push its agenda in the PTA with Morocco played a more important role than Morocco's actual appetite for deeper forms of bilateral integration.
- Moreover, Morocco's tendency to export products that do not receive the highest preferences can be observed in several of its PTAs, particularly those with EFTA, the UAE, and the U.S., regardless of their level of depth, suggesting that there would be theoretical scope for improving market access in existing agreements.
- However, Morocco's existing preferential agreements exclude services, and in some instances, only offer partial liberalization (Turkey and PAFTA), suggesting there could be scope to expand market access among preferential trade partners. Finally, Morocco has demonstrated dramatic leaps in terms of FDI openness in recent years, which has led to a more diversified export basket.

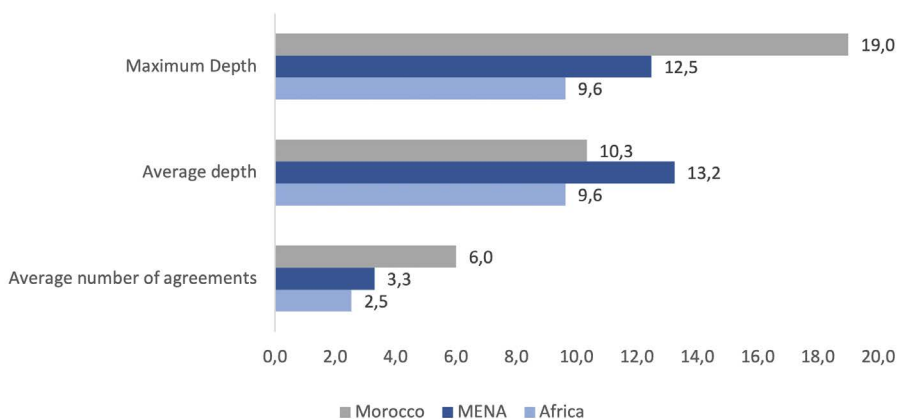
d. Policy conclusions

- While IIMV markets are attractive to Morocco in terms of size and growth potential and could justify pursuit of PTAs, such agreements on the whole offer limited space for mutually beneficial commitments. The quest for beneficial PTAs appears premature at this stage.
- Morocco on the other hand appears to be more attractive for these economic partners as a base for investments to access other markets than as

a destination market for their exports of goods and services. The Kingdom is well positioned to take advantage of its strategic location between Europe and Africa, and can serve as a gateway for increased access to African markets as part of the African Continental Free Trade Area (AfCFTA), even in the absence of a bilateral PTA.

- There could be market opportunities in the context of specific value chains, but it seems preferable to pursue these in the context of targeted cooperation (such as export and investment promotion), rather than through deep trade agreements that might prove challenging for Morocco to pursue in the short term.
- Morocco's priority should be to strengthen its export growth and diversification with its traditional PTA partners, especially the European Union, and its neighboring countries in Africa, as well as with MENA countries that share similar cultural and linguistic ties.
- Additional analysis should be conducted to examine specific value chains (in both goods and services) with IIMV countries, where investment and economic linkages can be strengthened. Also desirable is a finer analysis of the overall impacts that Morocco's existing PTA network have exerted to date.

Figure 1. Morocco has on average signed more agreements than regional peers, but their depth tends to be lower less than those signed by MENA countries



Source: Deep Trade Agreements Database 2.0, Author's computations.

While PTA participation has accelerated over time, Morocco has not participated in new agreements since signing several important agreements in the early 2000s. The exception is of course the signing of the African Continental Free Trade Area, which entered into force in April 2022. The average number of agreements that WTO Members participate in currently stands at 13. The European Union (EU) participates in the largest number of agreements (44), followed by EFTA members (between 31 and 29), Chile (22), Singapore (21), and Turkey (18). Other emerging economies, including China (11) and India (8) are not far behind. Morocco (6) lags the global average, but ranks above that of MENA (3) and Africa (2.5). In the MENA region, only Egypt (7) and Jordan (8) participate in more PTAs. In the Africa region, several countries have either more PTAs or the same number as Morocco: South Africa (7), Swaziland (7), Botswana (6), Namibia (6), and Lesotho (6) (Figure 1).

The coverage (or depth) of PTAs in terms of policy areas has widened significantly over time. Analysis based on a World Bank Group dataset on PTA content¹ shows that agreements signed before 1991 included on average nine policy areas, whereas agreements signed between 2005 and 2015 included 15 policy areas on average. Morocco is not an exception, as the Kingdom's six PTAs, relating as they do to 53 partner countries, cover 10 policy areas on average. When compared to regional peers, Morocco's PTA coverage is deeper, driven by the fact several of its preferential partnerships are with more advanced economies (i.e. the EU, EFTA, and the United States)².

Despite participation in a relatively limited number of PTAs, these preferential agreements cover a total 53 country partners, and a major portion of Morocco's external trade. Therefore, Morocco is already relatively well integrated into the global trading system as far as market access is concerned. Morocco has undertaken a gradual and significant (relative to the proportion of its total trade) opening of its domestic market through preferential trade liberalization since 2000, with the signing and implementation of the Euro-Med Agreement with the EU, by far the Kingdom's leading trading partner and the top source of inward FDI flows. This was followed by the conclusion of agreements with several important trade partners, including the United States and Turkey, with agreements that entered into force on January 1, 2006. Morocco was also among the founding members of the WTO in 2005. Section

1. Deep Trade Agreements Database 2.0, accessible at: <https://datatopics.worldbank.org/dta/index.html>.

2. Moreover, Morocco benefits from the Generalized System of Preferences given by Armenia, Australia, Canada, Japan, Kazakhstan, New Zealand, and the Russian Federation, thus adding seven more trade partners. Finally, Morocco is also part of the General System of Preference (GSP) scheme for developing countries, which comprises 42 members including Morocco. Out of the 42 members, Algeria, Egypt, and Sudan are already part of the Greater Arab Free Trade Area (GAFTA). Therefore, if GSP members are included, the total number of Moroccan trading partners reaches 97 countries. Source: WTO database (Link).

3.2 discusses in more detail Morocco's preferential trade agreements.

1. Trade in Goods and Services and FDI Flows in the Light of Existing FTAs

This section reviews Morocco's trade and investment patterns with the aim of understanding whether the Kingdom's liberalization policies pursued since the early 2000s, and the signing of PTAs, have improved markets access and economic diversification. This review will also guide the analysis with respect to exports of goods and services for which Morocco shows a measure of comparative advantage. Import patterns will also highlight areas in which Morocco may rely on new suppliers of goods and services (in the context of participation in global value chains). The section concludes with a review of investment patterns.

1.1 Trade in Goods

Moroccan exports to preferential trade partners have increased in the wake of agreements, and account for about 81.8% of total exports. However, trade patterns have differed depending on the partners. The EU continues to dominate Moroccan trade with a share of total exports going to the EU of about 66.3% of total exports (Figure 2). After signing the Euro-Med agreement, Morocco's exports to the EU grew significantly in value, over than 5.4% each year on average between 2005 and 2020, albeit at a rate slightly below that of exports to other partners. Moroccan exports to the EU are concentrated in terms of destination, with Spain and France accounting for more than half of the total export basket. It is however likely that a proportion of products exported to France or Spain are consumed elsewhere in the EU.

Exports to other preferential trade partners have also followed a favorable trend. Exports to PAFTA countries, Turkey, and the U.S. have thus increased their shares of total exports, growing respectively by 75.6%, 13.7%, and 8.6% per annum on average (2005-2020). The increase of exports to other PTA partners has compensated for the relative market share decline of the EU. These exports have also benefited from the diversification of Morocco's overall exports basket and followed its intensified participation in global value chains.

The Moroccan export basket is much more diversified within bilateral trade agreements than with the rest of the world, apart from exports to the United States. Exports to the EU are becoming more diversified in terms of products, with a positive trend of diversification toward higher value-added

products (electronics, vehicles, aviation, fruits and vegetables)³. Morocco's exports are shifting away from commodities, principally phosphates⁴, towards more sophisticated products requiring higher domestic value addition, including transport equipment, textiles, and electronics and mechanical products (Figure 3). For example, exports to EFTA, Turkey, and PAFTA have moved away from phosphates towards transport equipment and textiles in recent years. The extent of export growth also varies by partner, but signs of diversification are evident for all partners, except the U.S., where chemicals exports were the most important category in 2018, accounting for more than half of the total. Similarly, exports to the rest of the world are more concentrated in the primary sector, particularly phosphate commodities.

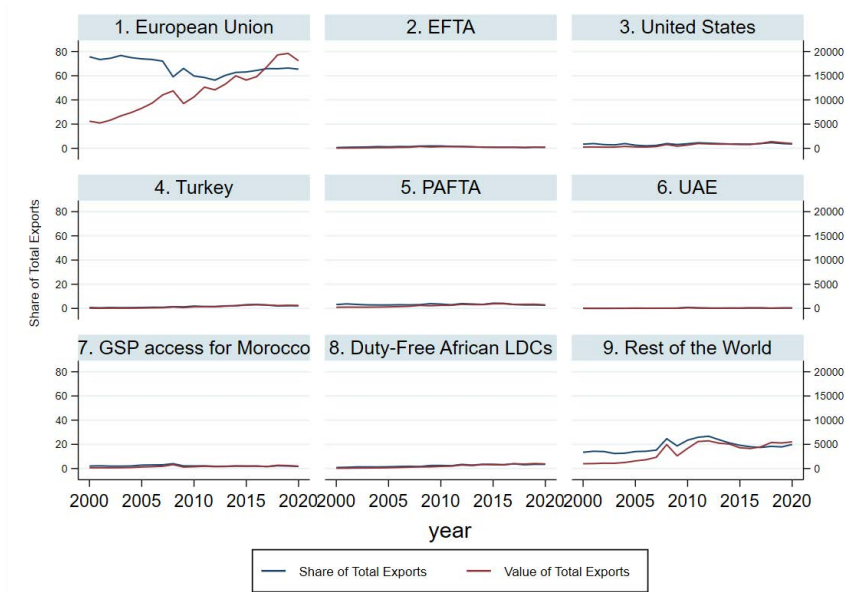
Table 1. Share of total exports to PTA partners and rest of the world (2005-2007 and 2018-2020)

2005 – 2007				2018 – 2020			
Rank	Country	US\$ Billion	% of total	Rank	Country	US\$ Billion	% of total
1	European Union	9.57	73.2%	1	European Union	19.15	66.4%
2	EFTA	0.18	1.4%	2	EFTA	0.21	0.7%
3	United States	0.30	2.3%	3	United States	1.18	4.1%
4	Turkey	0.12	0.9%	4	Turkey	0.61	2.1%
5	PAFTA	0.38	2.9%	5	PAFTA	0.81	2.8%
6	UAE	0.03	0.2%	6	UAE	0.08	0.3%
7	GSP for Morocco	0.39	3.0%	7	GSP for Morocco	0.59	2.0%
8	Duty-Free Arica LDCs	0.22	1.7%	8	Duty-Free Africa LDCs	0.97	3.3%
9	Rest of the World	1.89	14.5%	9	Rest of the World	5.25	18.2%
Total		13.07	100.0%	Total		28.85	100.0%

Source: Office des Changes export data convert in USD using the average annual exchange rate from IMF.

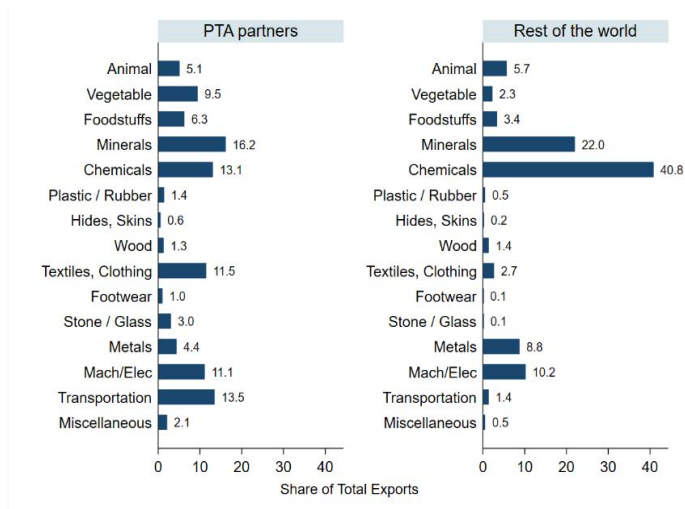
3. A concern often expressed in Morocco is the existence of a bilateral trade deficit with the EU and other trading partners—which is not a reliable indicator of the Kingdom's competitiveness. Berahab and Dadush (2020) noted that this bilateral trade deficit was mainly caused by shifts in trade in primary commodities: imports of oil and gas, and exports of phosphates and fertilizers. They noted, however, that Morocco did not necessarily achieve its full potential with, for instance, agricultural quotas not entirely filled.
4. Despite lower export values of phosphates in 2019, Morocco remained the world's largest exporter, with OCP, the state-owned operator, holding a 58% global market share. Morocco World New (Link), Consulted on November 20, 2020.

Figure 2. Morocco's exports are mainly directed to the EU market (2000-2020)



Source: Office des Changes export data convert in USD using the average annual exchange rate from IMF.

Figure 3. Morocco's exports to PTA partners are more diverse than to the rest of the world in 2020



Source: WITS import data, Author's calculations.

While half of Morocco's merchandise imports come from the EU, they are slightly more diverse in terms of origin than are export destinations. The share of imports originating from preferential trade partners was stable between 2005 and 2020. Between 2018 and 2020, \$24.23 billion of imported goods came annually from the EU on average (Table 2). The EU share as the main supplier to Morocco increased slightly to 53.2% of total imports on average between 2018-20, against 51.2% a decade earlier. This reflects in part the high level of integration between Morocco and the EU, as well as rising investments by EU firms in the automobile, textile, and aviation sectors (all of which have also contributed to Morocco's export diversification). Figure 4 shows the importance of the EU in Moroccan imports relative to other trading partners. The share of imports from the rest of the world in total imports increased continuously from 2000 until 2020. China accounted for two-fifths (40%) of imports from non-FTA trading partners between 2016-2018, followed by Brazil (7.7%), Korea (7.0%), India (6.4%), and Argentina (5.5%) (see Annex 1).

Among Morocco's PTA partners, the shares of imports from Turkey, the U.S., and UAE have increased over the past ten years, while the shares of EFTA and PAFTA members have declined. Morocco's imports from Turkey increased from 2.5% to 5.0% of aggregate imports between 2005 and 2020, while those from the U.S. grew from 4.8% to 7.2% (see Table 2). Moroccan imports from PAFTA members have weakened in recent years, declining from 10.8% to 5.7% of total imports, while remaining broadly stable in value terms (from \$2.75 billion to \$2.14 billion), despite being close trading partners from a geographical and cultural perspective (Figure 4 and Table 2).

Morocco's imports from PTA partners are less diverse than from the rest of the world but offer evidence of linkages with global value chains. Minerals account for about 30% of imports from trading partners, followed by transport equipment, and electronics and mechanical products, both of which relate predominantly to the automotive industry (Figure 5). On the other hand, vegetables, electronics and mechanical products, and textiles are the main import items from the rest of the world. For example, imports of textiles from the rest of the world (\$232 million) are higher than imports from trading partners (\$192 million), which is unsurprising as textile inputs originate from Asian countries. Textile inputs may be destined for final consumption, or used as inputs for the domestic textiles industry, which is well integrated into global value chains and relies mainly on exports to the EU, but has proved more resilient in times of crisis compared to other markets.

In conclusion, there is compelling evidence that bilateral liberalization has benefited Morocco's trade with partner countries and has led to export diversification in terms of products, particularly in relation to the EU. This

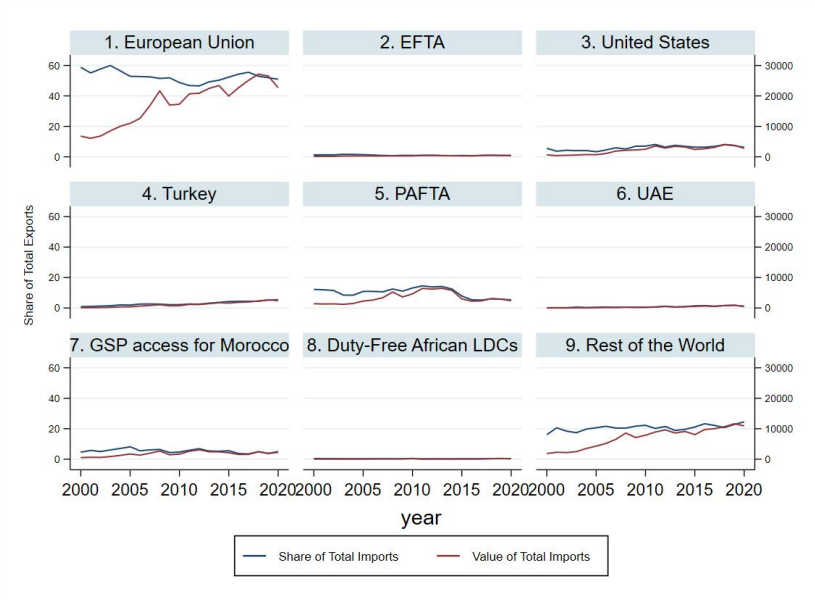
has benefited trade with other PTA partners (U.S. excepted), which also shows patterns of increased diversification, thanks to the increase in FDI in Morocco, which has led to deeper participation in global value chains. However, trade diversification has not taken place at the level of destination markets, where Morocco has not yet been able to benefit from export growth to EU markets other than France and Spain, nor from the expansion of exports to the Gulf and MENA countries. There is also continued reliance on preferential partner markets for imports, with some evidence suggesting linkages to global value chains. In addition, patterns of trade diversion take place within PTA members (for instance the share imports from PAFTA and EFTA have decreased, while imports from other PTA partners have increased). Finally, not being part of a PTA has not prevented imports from the rest of the world from growing strongly, led by Chinese imports.

Table 2. Share of total imports from PTA partners and rest of the world (2005-2007 and 2018-2020)

2005 – 2007				2018 – 2020			
Rank	Country	US\$ Billion	% of total	Rank	Country	US\$ Billion	% of total
1	European Union	13.55	53.1%	1	European Union	24.23	53.2%
2	EFTA	0.29	1.1%	2	EFTA	9.12	1.0%
3	United States	1.22	4.8%	3	United States	3.11	7.2%
4	Turkey	0.62	2.4%	4	Turkey	2.85	5.0%
5	PAFTA	2.75	10.8%	5	PAFTA	2.14	5.7%
6	UAE	0.14	0.5%	6	UAE	1.88	1.5%
7	GSP for Morocco	1.66	6.5%	7	GSP for Morocco	0.60	4.5%
8	Duty-Free Arica LDCs	0.08	0.3%	8	Duty-Free Africa LDCs	0.40	0.4%
9	Rest of the World	5.24	20.5%	9	Rest of the World	0.09	21.4%
Total		26.34	100.0%	Total		44.34	100.0%

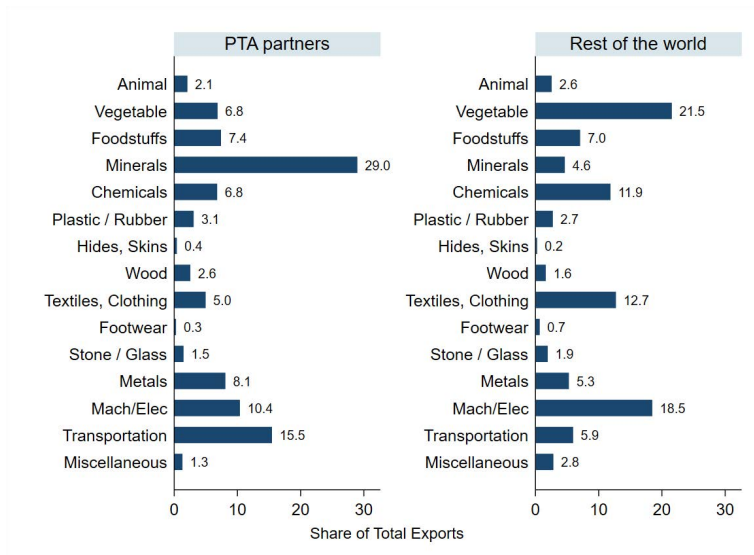
Source: Office des Changes export data convert in USD using the average annual exchange rate from IMF.

Figure 4. Morocco imports mainly from the EU and the rest of the World world (\$ billions)



Source: Office des Changes export data convert in USD using the average annual exchange rate from IMF.

Figure 5. Morocco's 2020 imports from PTA partners show value chain linkages



Source: WITS import data, Author's calculations.

1.2. Trade in Services

Morocco's trade in services has grown very significantly in recent years, more than doubling since 2005, in great part thanks to travel and transport services. Morocco is a net exporter of services, with a positive net balance of \$10.1 billion in 2019, and \$7.3 billion in 2022. Travel and transport have dominated services exports since 2005, surging up to 2008, since when growth has become more volatile. ICT and business services have grown in importance and contributed to the overall increase in services exports. From 2015 to 2019, growth resumed and the volume of services exports exceeded the 2008 peak, until a brutal deceleration during the COVID-19 pandemic in 2020-21 (Figure 6).

On the import side, transportation services are the leading category, followed by travel and other services (Figure 7). Overall, the growth engine of transport services in Morocco is, of course, maritime transport, which is linked with Morocco's growing economy and fast-growing trade, and the increasing interconnectedness of the economy in global value chains.

Figure 6. Morocco's services exports (\$ millions) are dominated by travel and transport services

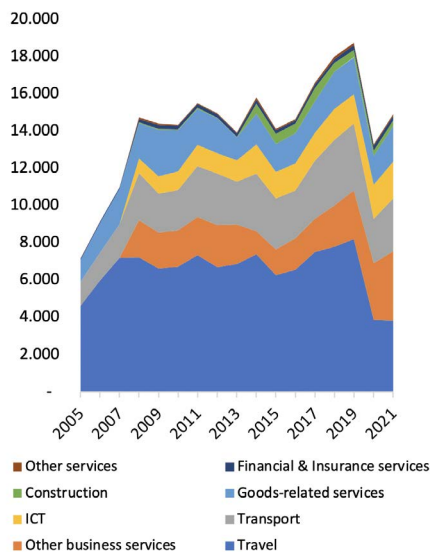
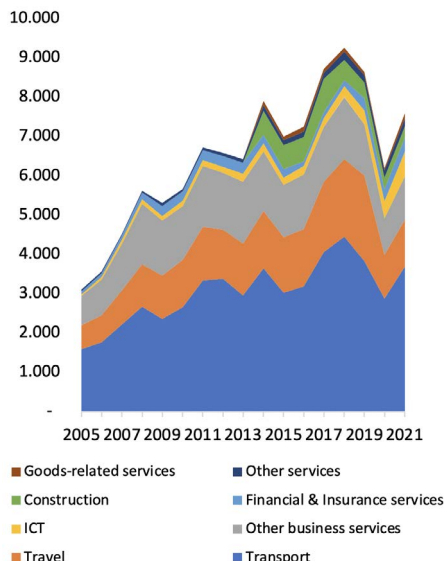


Figure 7. Morocco's services imports (\$ millions) are dominated by transport and other services

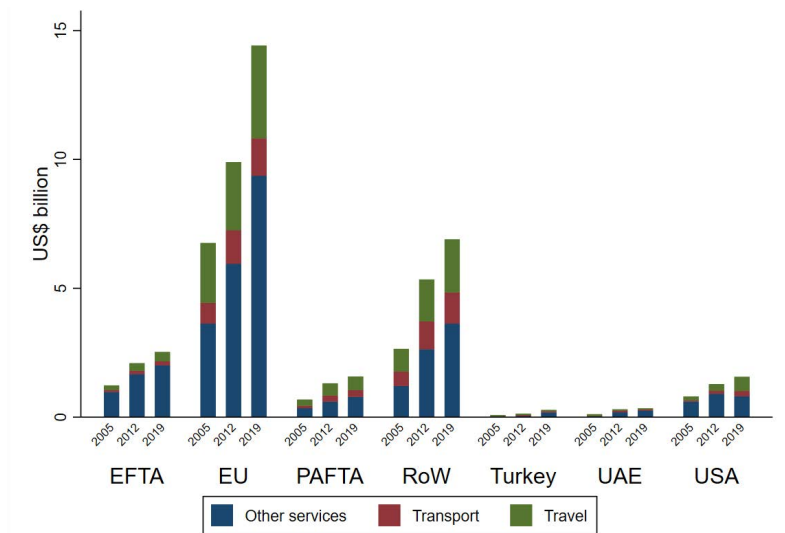


Source: WTO trade in commercial services (EBOPS 2010), Author's calculations.

Even more than for goods, the EU is the main destination for Morocco's services exports, with a value of \$14.5 billion in 2019 (Figure 8). The EU's share as a destination for Morocco's services exports has increased to 52.2% of total services exports, followed by the rest of the world, EFTA, and then the United States (Annex 2). The U.S. is the only partner with which Morocco has a PTA that covers both trade in goods and services. While trade in services with the U.S. is robust, there is no clear indication that it has grown faster or differently under the agreement, relative to other PTA partners. Services exports to other trading partners under the PAFTA agreement are also sizeable, while exports to Turkey and UAE are very small. Overall, services exports have been increasing for all trading partners and the rest of the world, at a relatively stable pace.

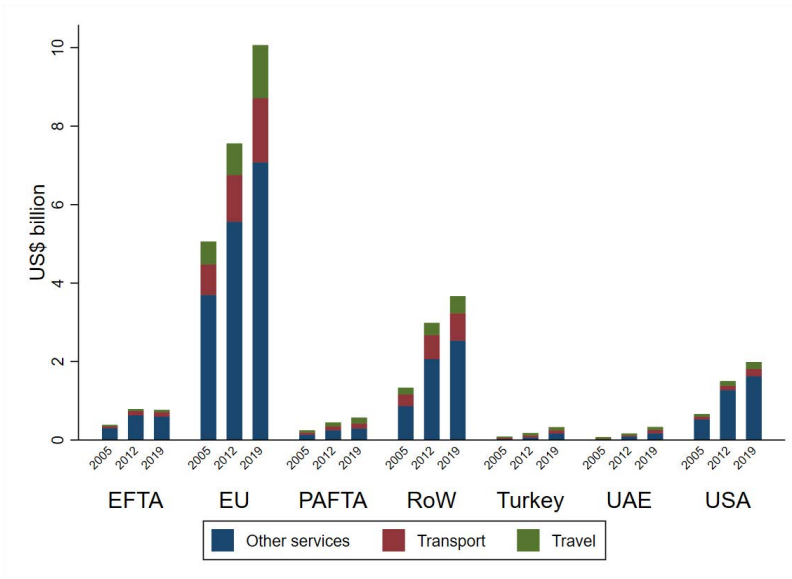
The source of most of Morocco's services imports is, as expected, the EU, with a value of about \$10.1 billion in 2019 (Figure 9). Note that Morocco is a net exporter of services to the EU. The U.S. is the third main origin of services imports, which is not totally unexpected given its role in world's service trade. By contrast to the EU, Morocco is a net importer of services with the U.S. Finally, imports of services from the other PTAs are at a non-significant level, and lower than imports from the rest of the world (Annex 3).

Figure 8. Morocco's services exports by trading partners and categories, 2005 to 2019



Source: OECD-WTO Balanced International Trade in Services EBOPS 2010 (2005-2019) - (Experimental data set).

Figure 9. Morocco's services imports by trading partners and categories, 2005 to 2019



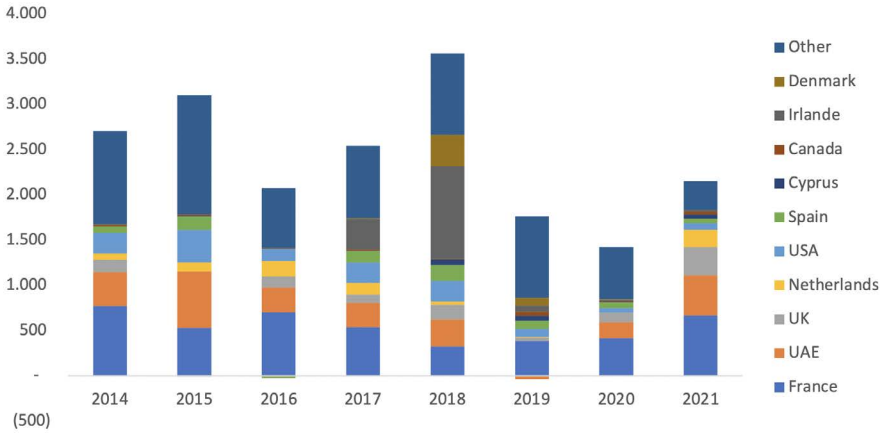
Source: OECD-WTO Balanced International Trade in Services EBOPS 2010 (2005-2019) - (Experimental data set).

Note: Commercial services and other commercial services have been combined. All other categories have been combined into other services because they are very small.

1.3. FDI Flows

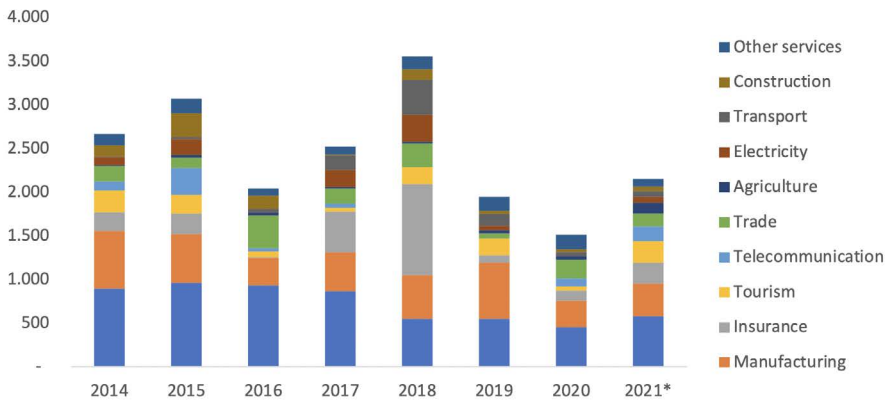
Inward FDI in Morocco originates mainly from the EU and Middle Eastern countries, with investment from France and the UAE accounting for half of Morocco's FDI stock. The top 12 foreign investors in Morocco in 2021 (net inward FDI flows) are all PTA partners, with the exception of Canada (Figure 10). At least 84.0% of net inward FDI flows in Morocco originate from the Kingdom's top 10 PTA partners (Annex 4). The sectors in Morocco that have attracted the most FDI are real estate, manufacturing, insurance, tourism, and telecommunications (Figure 11). Such trends confirm Medvedev's (2006) work that showed that PTA membership is associated with a positive change in FDI inflows, and that FDI gains are larger for PTA partners and for neighboring countries.

Figure 10. Morocco’s Inward FDI flows by origin, 2009-21 (\$ millions)



Source: Office des changes, Authors’ calculations.

Figure 11. Morocco’s Inward FDI flows by sector, 2009-2021 (\$ millions)

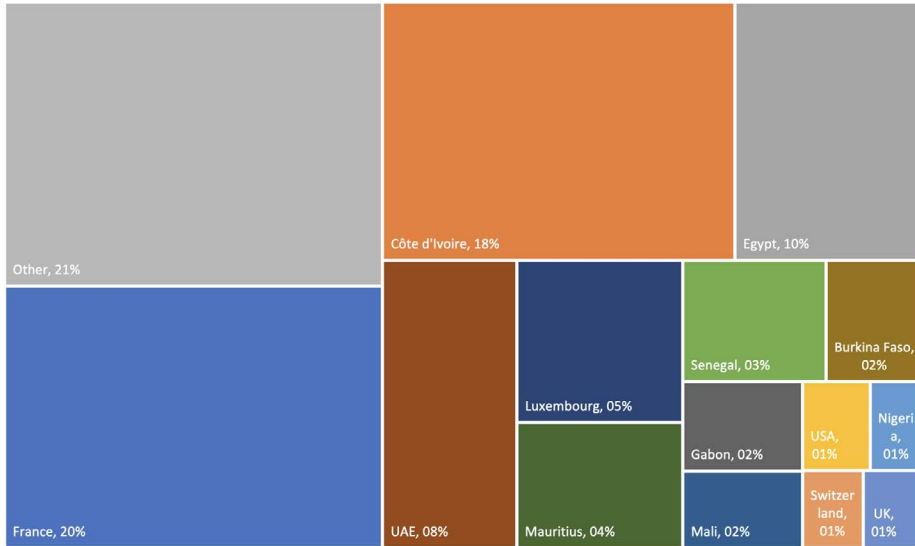


Source: Office des changes, Authors’ calculations. Note: *Data for 2021 is provisional and average annual exchange rate conversion.

Moroccan investments abroad are chiefly directed towards Africa. France remains the first destination for Moroccan outward investment, accounting for 19.7% of the total, followed by Cote d’Ivoire (Figure 12). Other important investment destinations in Africa include Egypt (9.2% of total outward FDI), Mauritius (4.2%), Senegal (3.5%), Gabon (2.1%), and Burkina Faso (2.3%). Moroccan investment in IIMV countries is very small, the notable exception

being OCP, the state-owned phosphate company, which has a subsidiary in India.

Figure 12. Morocco's net outward FDI flows annual average by destination, 2015 to 2021



Source: Office des changes, Authors' calculations. Note: *Data for 2019 covers only Q1-Q2.

Deeper PTAs can help attract new investment, and their depth correlates with vertical FDI⁵, therefore a more enabling FDI regime will improve the manufacturing potential of Morocco. Deeper trade agreements affect the way goods are traded internationally, either within firms or at arm's length. As a result, deep PTAs can influence corporate decisions on whether to outsource production by vertically integrating the production process with affiliated companies located in trading partners' jurisdictions (see discussion in Box 1). Moreover, FDI can have domestic spillover effects on local suppliers of inputs and services in upstream sectors, and customers in downstream sectors. FDI has long been seen to boost export growth, knowledge creation, wages, and jobs (Echandi et al, 2015).

5. The theoretical literature has long distinguished between market seeking (i.e. horizontal) FDI, and efficiency seeking (i.e. vertical) FDI (Markusen, 1984; Helpman, 1984). That is whether producers outsource to trading partners' suppliers (horizontal), or vertically integrate production processes with affiliates in foreign economies (vertical). Unless otherwise specified, whenever we refer to FDI in the rest of the chapter, we imply vertical FDI.

Box 1. Linkages between Deep Trade Agreements (DTAs), FDI and GVCs

PTAs impact the international organization of production through vertical foreign direct investments and global value chains.

Deeper trade agreements covering policy areas beyond traditional market access for goods can promote export diversification, including by facilitating a country's integration into global value chains (GVCs). At the sectoral level, deep trade agreements help countries to integrate into higher value-added industries, enabling the transformation of the domestic economic structure to maintain growth levels and create sustainable jobs. The literature shows that deeper preferential trade agreements increase both the domestic (forward linkages) and foreign (backward linkages) value added of intermediate goods (Mattoo et al, 2017).

Deeper trade agreements promote trade expansion among members and have positive spillover effects on trade with non-members. Through PTAs, member countries have extended the reach of their commitments well beyond tariffs and additional obligations in policy areas covered by the WTO, such as customs administration and contingent protection, to policy areas such as investment and competition policy. As Mattoo et al (October 2017) showed, the deepening of trade agreements does not come at the expense of trade with non-member countries. This argument confirms Baldwin's (2014) "negative trade diversion" hypothesis, as deep agreements feature many non-discriminatory provisions, such as those regulating services, competition policy, subsidies, and standards, that stand to improve trade relative to outsiders, and generate positive spillover effects.

Both arguments for deepening trade agreements offer firms the opportunity to diversify their market destinations by incorporating international production processes. First, deeper trade agreements facilitate the integration of firms into global value chains, allowing them to increase their production output through technology transfers (Laget et al, June 2018). Second, the 'extended gravity' effect⁶ has shown that firms' decisions to export to new markets are not based only on geographic proximity, but also on earlier and subsequent destinations (Morales et al, 2019), supporting

6. The gravity model has been extensively used in international trade due to its intuitive empirical and theoretical appeal. The gravity model of international trade in international economics is a model that, in its traditional form, predicts bilateral trade flows based on the economic sizes and distance between two units. Anderson and van Wincoop (2003), and Baldwin and Taglioni (2006), among others, presented exhaustive literature reviews on the gravity equation as applied to international trade.

the argument of Lee et al (November 2019) that PTAs reduce firms' entry costs to new markets. The latter casts doubt on the conventional view that by lowering tariffs between members, PTAs increase trade discrimination against firms in third countries, leading to a reduction in their exports at the expense of less-efficient producers in member countries (trade diversion).

According to Karam and Zaki (2019), Morocco has developed strong value-chain linkages over the last 20 years. The country has high value-chain integration in horticulture, chemicals, textiles, electrical machinery, automotive, aerospace, ICT, and transport services. Of these, the major export sectors of logistics, chemicals, textiles, electrical equipment, and the automotive industry have high shares of foreign inputs. However, one limitation observed in the automotive industry is that spillover effects on the local economy appear limited (Malouche and Partow, 2019). Assessing spillover effects on the Moroccan economy requires further research.

2. Trade in Goods and Services and FDI Flows with IIMV Countries

This section assesses the scope for closer economic relationships between Morocco and IIMV countries by reviewing the extent and nature of bilateral trade and investment flows, and more broadly, economic ties between Morocco and IIMV countries.

Two-way trade between Morocco and IIMV countries stood at \$2.6 billion at the end of 2018, representing 3.2% of Morocco's total trade. Table 3 shows that IIMV countries account for 4.8% of Morocco's total exports, a level higher than the share of IIMV imports at 2.3%. Overall, trade between Morocco and India is by far the largest within the IIVM grouping, accounting for more than three-quarters of total trade between the Kingdom and the IIMV countries. Indonesia, Malaysia, and Vietnam have relatively weak trade ties with the Kingdom. Trade flow shares with the IIMV grouping are as follows:

- **Exports:** about 90% of total Moroccan exports to IIMV countries are directed to India, representing 4.3% of Morocco's total exports to the world, followed by Indonesia (IIMV share: 6%; world share: 0.3%), Malaysia (IIMV share: 2%; world share: <0.1%), and Vietnam (IIMV share: 3%; world share: 0.1%).

- **Imports:** 61% of Morocco's imports from IIMV originate in India (representing 1.4% of the Kingdom's world import share), followed by Vietnam (IIMV share: 21%; world share: 0.5%), with Indonesia and Malaysia in equal third place (IIMV share: 9%; world share: 0.2%).

Table 3. Trade (exports and imports) between Morocco and IIMV, 2015-18 (\$ millions)

	Exports (US\$ Million)				Imports (US\$ Million)			
	2015	2016	2017	2018	2015	2016	2017	2018
India	1,100	840	774	1,323	399	634	617	703
Indonesia	127	62	141	91	135	173	133	106
Malaysia	19	24	26	23	85	96	100	104
Vietnam	5	14	13	37	195	271	216	243
IIMV	1,251	940	954	1,474	815	1,174	1,066	1,156
EU	14,474	15,293	17,542	20,062	20,356	23,126	25,371	27,508
World	8,605	8,647	9,226	9,222	16,787	17,112	18,009	21,705
IIMV share	5.1%	3.8%	3.4%	4.8%	2.1%	2.8%	2.4%	2.3%

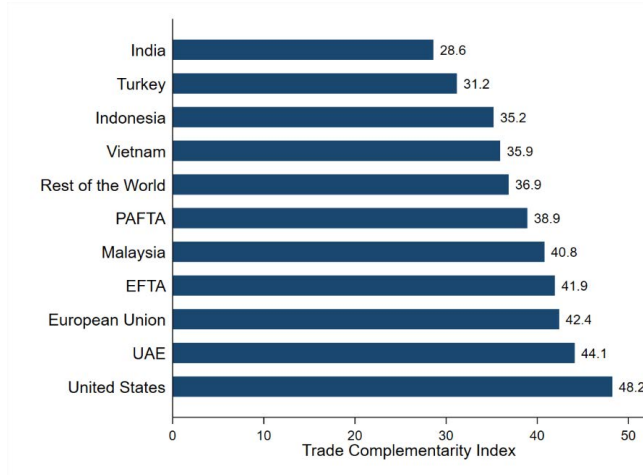
Source: WITS mirror export data and import data, Author's calculations.

Morocco has lower trade complementarities with IIMV countries than with existing trading partners, Malaysia excepted⁷. Morocco's trade complementarity with India is the lowest of the group, followed by Indonesia and Vietnam, indicating a low potential to benefit from a goods-based PTA, as trade patterns for these countries are poorly aligned (Figure 13). Malaysia, on the other hand, has a relatively high trade complementarity index, close to that of Morocco's main trading partners such as EFTA and European Union,

7. Note that the TCI index is calculated only for trade in goods and not for services, where Morocco could potentially have more complementarities with the IIMV grouping. In addition, the TCI has some limitations, as export volumes may result from subsidies or other incentives, including undervalued exchange rates.

indicating a potential for mutual trade gains. Several products, such as halal meat and textiles for women, could be exported to some of the IIMV countries: Indonesia and Malaysia. Moreover, the ITC export potential map⁸ provides evidence that Morocco's export potential is greater with the EU and the U.S., and remains relatively low with the IIMV countries.

Figure 13. Trade Complementarities Index for Morocco and IIMV countries, PTA partners and the rest of the World in 2018



Source: WITs export data, Authors' calculations.

Note: a maximum score indicates that the two countries are ideal trading partners. A lower score indicates that the countries export similar products and there may not be much scope to expanding each one's exports to the other. The TC between countries k and j is defined as: $TC_{ij} = 100(1 - \sum(|m_{ik} - x_{ij}| / 2))$.

Morocco's overall trade with the IIMV group of countries is dominated by exports of phosphates to India, but there are signs of participation in common global value chains. Phosphates exports are the reason behind the Kingdom's overall trade surplus with the four countries⁹. Beyond phosphate products, trade flows between Morocco and the IIMV grouping are relatively modest, but offer signs of participation in common global value chains: while this observation would require additional investigation, a first examination of two-way trade flows indicates modest participation in textiles, electronics, and motor vehicle value chains.

8. For more information on the methodology, follow the [link](#).

9. Exports to IIMV are thus suggests to fluctuations in world commodity prices. Annex 1 shows that phosphate prices and the trade balance between Morocco and IIMV move in sync: an increase in phosphate prices leads to an increase in the trade surplus, and vice-versa.

For services, trade is highest with India, where Morocco is a net exporter of services and is mainly driven by commercial services, but services trade is very low with the other countries in the IIMV group. In general, imports and exports of services with IIMV countries have increased in recent years, with positive growth trends for each country. Several sectors in which Morocco has a comparative advantage are likely to expand, such as tourism, transport, and ICT. Nevertheless, the focus of other sectors, such as financial services, remains on the African continent.

In terms of FDI, there are potential complementarities between Morocco, India, and Malaysia, which are notable sources of FDI for Morocco, and are the largest investors compared to Indonesia and Vietnam. Moreover, there is evidence that India and Malaysia invest in sectors in which Morocco has a comparative advantage, namely tourism, transport equipment, ICT, and electronics. India's investment in Morocco is concentrated in the transport equipment sector, chemicals, and plastics, while Malaysia's investment is in the energy and construction sectors, and to a lesser extent in tourism.

2.1. Trade in Goods

A. India

Morocco's export basket to India is heavily concentrated in commodities fed by sustained demand for imported fertilizers and metals. The bilateral trade balance is in surplus thanks to phosphate exports, which represented 94% of the export basket to India in 2018, followed by other commodities including aluminum, copper, and steel¹⁰. Since India has been driving the demand for phosphate fertilizers, and is the world's second largest consumer of phosphate fertilizer¹¹, it became the second leading destination for Moroccan phosphate exports, standing at \$1.25 billion in 2018 (Annex 6.A), and representing 20% of Morocco's total phosphate exports to the world (Annex 5). If India shifts towards more sustainable farming practices through stricter regulation of fertilizer use, its demand could decline, potentially reducing the Kingdom's bilateral trade surplus¹².

10. Moroccan state-owned enterprise OCP opened a subsidiary in India and sells phosphate to its own subsidiary ([Link](#)).

11. Consulted on November 13, 2020, Financial Times ([Link](#)).

12. According to India's SCD (2018), the price of fertilizers is unregulated and increased, generating a skewed pattern of fertilizer application that diverges from that which is scientifically recommended. Hence, higher ratios require more fertilizers which make crops less responsive to fertilizer usage, raising the demand for fertilizers.

While being Morocco's leading trade destination in Asia, export trends to India have remained stable over the 2012-2018 period thanks to phosphate. Other Moroccan exports to India remain modest. Figure 14 shows that the leading exports from Morocco to India other than phosphates, with an annual export value higher than \$1 million, include aluminum, metals, fish feed, and insecticides. Metals represented \$36.6 million in 2018 and have been traditionally exported, as is the case for insecticides (\$3.9 million) (See Annex 6.A). However, two newly exported products have emerged in recent years: fish feed (\$6.6 million) and turbo propellers (\$4.8 million). The growth of these two product categories should be carefully considered as part of Morocco's trade strategy when negotiating new trade agreements. The remaining \$32 million of Moroccan exports, representing less than 2.4% of the Kingdom's exports to India, is spread across 344 HS 6-digit product categories, with values too low to be analytically meaningful.

Moroccan imports from India are more diverse than the Kingdom's exports, with textiles, petroleum, electronic machinery, and agricultural products accounting for 62% of total imports. Such imports reached \$436 million in 2018 (Annex 7.A). Figure 15 shows that fluctuations in import values are mainly due to minerals (mainly petroleum), while trends in the four other categories have been relatively stable over time. Of the total, textiles represent \$155 million (22.1%), petroleum \$106 million (15.8%), electronic machinery \$94.2 million (13.4%), and vegetables \$72.7 million (10.3%). The remaining 38% (\$267 million) is spread across 1,071 product categories at the HS 6-digit level, showing considerable diversification in terms of imported goods and including fertilizers, insecticides, pipes, tractors, ploughs, and other transport parts. While some imports are intended for domestic consumption, for example agricultural products (curcuma, seeds of cumin, ginger, etc.), others are intermediate imports used by domestic exporters to improve productivity and participation in GVCs.

In Morocco, several industries use imported intermediate inputs: fertilizers for agriculture, yarn and fabric for textiles, and electronic components for automotive/aviation. Morocco's trade flows of electronic components to and from India offer evidence of incipient GVC linkages. Also, Morocco is seeking to scale-up agricultural production, both to spur export growth and to satisfy growing domestic demand. Agriculture depends on imports for productivity improvements such as the acquisition of machines, technology, and know-how. India is a promising partner for this, thanks to its experience in mechanized agriculture.

Figure 14. Morocco's exports directed to India are concentrated in a few products: phosphate, fish food, insecticides and metals...

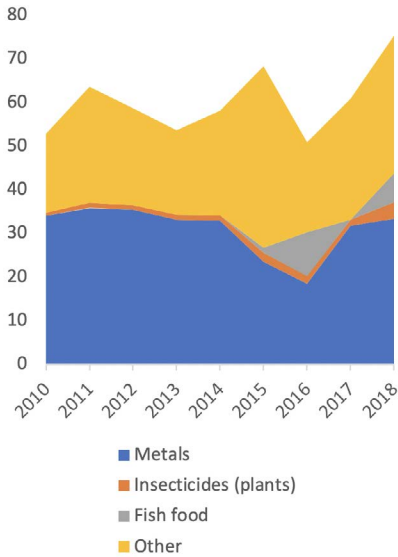
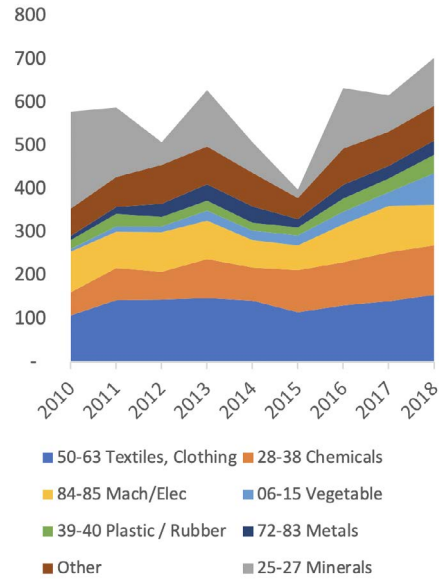


Figure 15. While imports from India are more diverse with textile dominating, followed by petroleum, electric machinery and agriculture.



Source: WITS import data, Author's calculations.

B. Indonesia

Morocco's exports to Indonesia are also concentrated in phosphates (74%) and textiles (23%), with all other export categories generating less than \$1 million annually. Exports of phosphates and textiles stood at \$87.5 million in 2018 (Annex 6.B). Figure 16 shows the evolution of Moroccan exports to Indonesia excluding phosphates. Interestingly, and in contrast to trends observed in exports to India, Morocco has registered significant export growth to Indonesia for textiles, which increased from \$6.8 million in 2010 to \$20.9 million in 2018¹³. This can also be related to imports of textiles from Indonesia, offering evidence of a value-chain connection between the two countries. In 2018, two new products were exported to Indonesia: turbo jet propellers (\$0.6 million) and electronic circuits (\$1.1 million), although both show relatively small export values. Other Moroccan exports account for \$1.43 million, and are spread across 127 product categories.

13. When looking at a more disaggregated level of textiles exports, women's overcoats and scarves constitute the main textile exports, highlighting strong cultural and religious links between Morocco and Indonesia.

Imports from Indonesia are relatively diversified, with three product categories accounting for 76% of the total: vegetables, electronic machinery, and textiles. Figure 17 shows the relatively stable evolution of imports from Indonesia over time. Vegetables exports amounted to \$39.2 million (37.4%), of which \$21.2 million was classified as coffee imports when disaggregating the data at the HS 6-digit level. Coffee represented one fifth of Morocco's imports from Indonesia in 2018. Textile imports reached \$27.3 million (25.8%), while imports of electronic machinery stood at \$11.8 million (11%) (Annex 7.B). Several imported goods are inputs for domestic industry, for example yarn and fabric for Morocco's fast-growing fashion industry. However, when aggregated together, textiles are the second most imported category, accounting for \$27.3 million. About 704 product categories showed import values smaller than \$1 million in 2018, amounting in aggregate to \$27 million (25.7%)¹⁴.

Figure 16. Morocco's exports directed to Indonesia are concentrated in phosphates and textile with signs of improvements for electronics

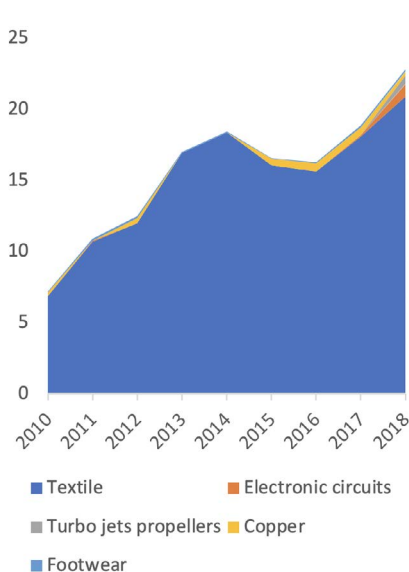
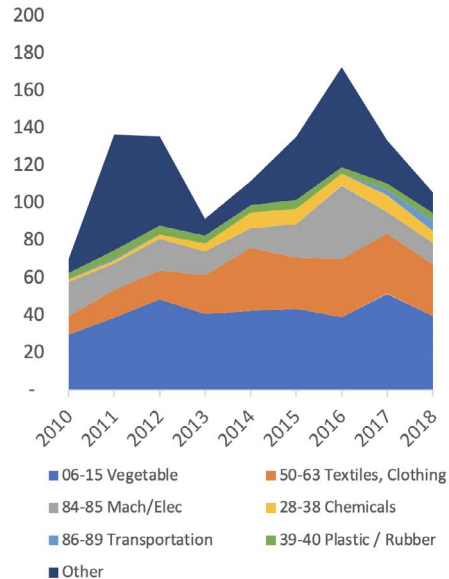


Figure 17. While imports from Indonesia are much more diverse, with textiles dominating and chemicals dominating.



Source: WITS import data, Author's calculations.

14. For example, HS551219 Printed, dyed or colored woven fabric imports amounted to US0.23 million in 2018.

C. Malaysia

Morocco's exports to Malaysia are very modest, totaling slightly more than \$20 million annually. They are also relatively diverse, encompassing electronics, frozen fish, textiles, aluminum, and olive oil, and suggest Moroccan firms are making efforts to penetrate the Malaysian market in the above product categories. Annex 6.C shows that the top Moroccan exports in 2018 were electronic machines for \$6.9 million (29.7%), frozen fish for \$5.3 million (22.9%), textiles for \$4.24 million (18.4%), and aluminum for \$1.9 million (8.4%). Morocco's export basket to Malaysia offers evidence of significant change in recent years, with expansion into new product categories. Exports of frozen sardines and textiles have grown much faster since 2013 (Figure 18). Olive oil exports started in 2016 and aircraft in 2017¹⁵. Annex 6.C provides evidence of the changes in Morocco's export basket to Malaysia. The 2018 top exports represented 93.2% of total exports, while the same exported basket accounted for only 58.3% of exports in 2012.

Electronic machinery is Morocco's leading import from Malaysia, followed by vegetables, and plastics and rubber. Figure 19 shows that imports from Malaysia have been relatively stable over the years, albeit declining slightly. Import values dropped in 2015 mainly because of lower imports of electronic machinery and vegetable products. Electronic machinery accounted for \$45.5 million in 2018 (\$31.3 million of which consisted of imports of radio and television broadcasting equipment comprising four products¹⁶ categories) (Annex 7.C). When taking a more disaggregated look at Morocco's imports from Malaysia, palm oil ranks as the leading imported product for \$11.4 million in 2018 (11.0%), alongside other oil fats for \$7.7 million (7.4%).

15. Since aircraft parts amount to less than \$1 million, it is unlikely that a deep business relationship exists.

16. HS 854190 Parts of mounted piezo-electric cry; HS 854129 Transistors, other than photosensitive; HS 852810 Television receivers including video; 852520 Transmission apparatus, for radio.

Figure 18. Morocco's exports directed to Malaysia are well diversified, showing growth in levels of exported value in textile and frozen fish...

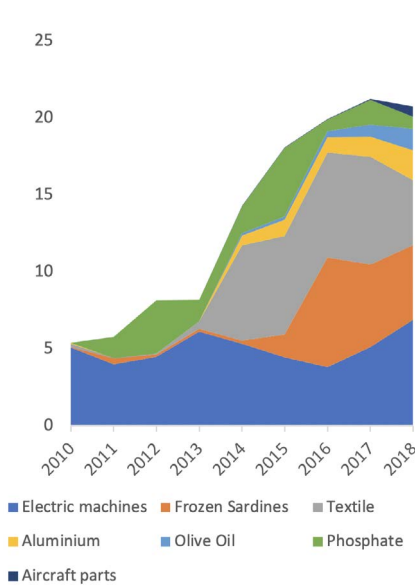
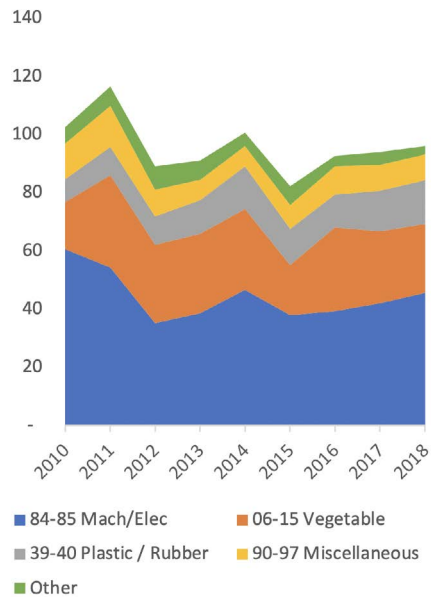


Figure 19. Similarly imports from Malaysia are also diverse with Machinemachine/Electronics electronics and Vegetable vegetable imports being the largest categories.



Source: WITS import data, Author's calculations.

D. Vietnam

As in the case of Malaysia, Morocco's exports to Vietnam are very modest. Two traditional exports, phosphates and textiles, dominated the Kingdom's export basket to Vietnam in 2018. Figure 20 shows the evolution of Moroccan exports to Vietnam, with strong growth in phosphate exports since 2017. These represented less than \$1 million before 2018. Large fluctuations in Morocco's export basket to Vietnam can be witnessed since 2010. The top products that made up Morocco's 2018 export basket to Vietnam accounted for about 93% of total exports to Vietnam, while the same export basket accounted for less than 35% of exports in 2015 and 2012 (Annex 6.D). Textile export values increased from less than \$1 million in 2010 to \$9.1 million in 2018. Finally, Vietnam started importing two new products in 2018: fish feed for \$2.5 million (6.8%), and metals for \$1.07 million (1.4%). Both products are highly dependent on Vietnam's demand and production output. For this reason, large yearly fluctuations in export levels can be observed.

Electronic machinery dominates Morocco’s imports from Vietnam, followed by vegetables, textiles, and footwear. About 66% of Morocco’s imports from Vietnam consist of radio and television broadcasting equipment, amounting to \$160.6 million in 2018 (Annex 7.D). Of the total, \$134 million worth of imports related to a single product: HS 852520 Transmission apparatus. Figure 21 shows that transmission apparatus has driven import growth from Vietnam, explaining why Morocco’s bilateral goods trade deficit with Vietnam is the largest among the IIMV grouping. Coffee is the second leading import, with a total value of \$20 million (8%), close to the import value of \$21.2 million from Indonesia. Other leading imports from Vietnam include fish nets, which contribute to the development of the Moroccan fishing industry. These amounted to \$2.1 million in 2018. The top 20 imported products represent \$209 million (86%), with the remaining \$34 million spread across 614 HS 6-digit level product categories, and showing considerable diversity.

Figure 20. Morocco’s exports directed to Vietnam are well diversified showing increases in textiles, fish feeding, and integrated circuits exports.

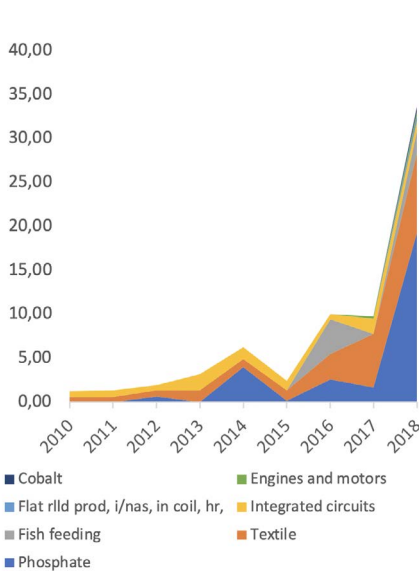
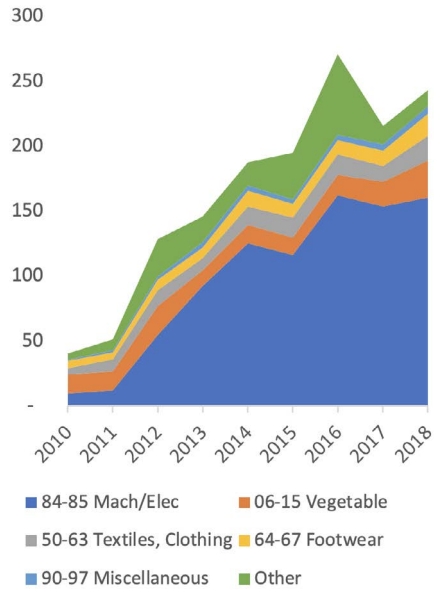


Figure 21. Similarly imports from Vietnam are also diverse, with Machinemachine/ Electronicselectronics driving growth of exports values.



Source: WITS import data, Author’s calculations.

2.2 Trade in Services

Morocco's services exports to India consist mainly of commercial services, travel services, and transport services, in line with Morocco's comparative advantage in transport and travel services. Services exports to India amounted to \$630 million in 2019 and represented the largest share of total services exports to the IIMV grouping (Figure 22). Overall, services exports to the four countries have shown a trend of growth in recent years. However, the values have remained low for Malaysia, Indonesia, and Vietnam, at less than \$100 million in 2019.

In terms of services imports, India is again the most important partner, from which Morocco imports mainly commercial and other services. The most important category of services imports from India is 'other services', with a value of \$375 million in 2019, followed by transport with \$33 million, and travel with \$20 million, for a total of \$429 million (Figure 23). It is worth noting that Morocco is a net exporter of services to India. More generally, imports have increased in recent years, similarly to exports. Vietnam is again the least-significant exporter of services to Morocco, with a total value of \$24.2 million in 2019.

Tourism is an important sector in Morocco, and tourists from IIMV countries can be expected to visit the Kingdom thanks to cultural and religious ties. In 2018, 14,770 tourists came from India, and a total of 284,525 from other Asian countries, according to the Morocco Tourism Observatory¹⁷. The year-on-year growth rate was 4% for India and 13% for other Asian countries. The overall share of Asian tourists in total foreign tourist arrivals remains low at 4%. While there are no direct flights between Morocco and the IIMV countries, several hubs, including Addis Ababa, Istanbul, Dubai, Doha, and those in the EU, connect to Morocco and can be channels for business and leisure travel between Morocco and IIMV countries, with reasonable travel times.

Within transportation services, maritime transport is likely to be the engine of growth between Morocco and IIMV countries. There are currently several direct sea links between Morocco and the IIMV grouping. Nonetheless, connectivity to these markets is likely to grow as trade in goods increases, although other well-established shipping hubs and networks are currently used. More direct sea networks can be expected to emerge in the future, improving transport services exports and imports.

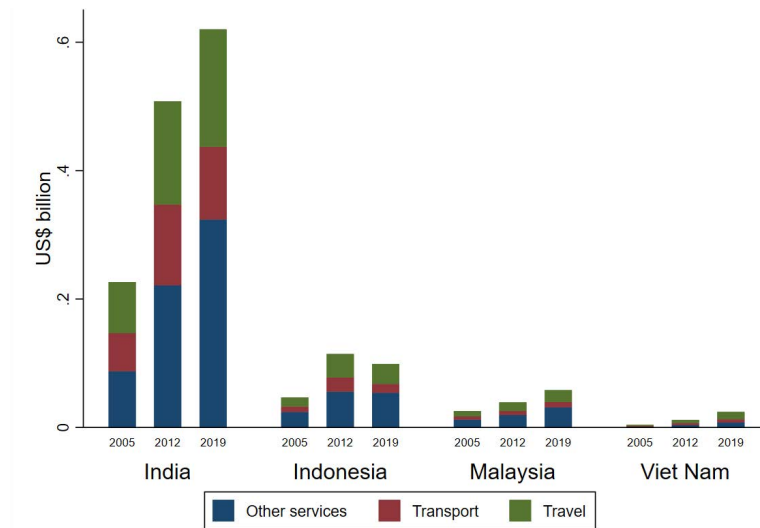
In terms of financial services expansion, the primary focus of Moroccan banks and insurers has been on the African continent, which offers higher

17. Consulted on January 28, 2021, on the Morocco Tourism Observatory website (Link).

margins despite a lack of regulatory transparency and riskier environments¹⁸. Moroccan banks operate across Africa through 42 subsidiaries and four branches in 27 countries, including ten in West Africa, six in Central Africa, six in East Africa, three in the Maghreb countries and two in Southern Africa. Moroccan banks also have branches and subsidiaries in seven EU countries and in China¹⁹. No information was found regarding the presence of subsidiaries of Moroccan financial institutions in the IIMV grouping.

Alongside goods trade, and despite low current volumes of cross-border trade and investment in services, the preferential trade agreements that Morocco contemplates with new partners in Asia should also extend to services. Negotiating trade agreements to secure national treatment for Moroccan service providers in foreign markets is as important as improving market access for goods. Negotiating enhanced terms of market access is essential to diversify Moroccan services exports and lower trade costs for goods.

Figure 22. Morocco's services exports to the IIMV countries by category, 2005 to 2019

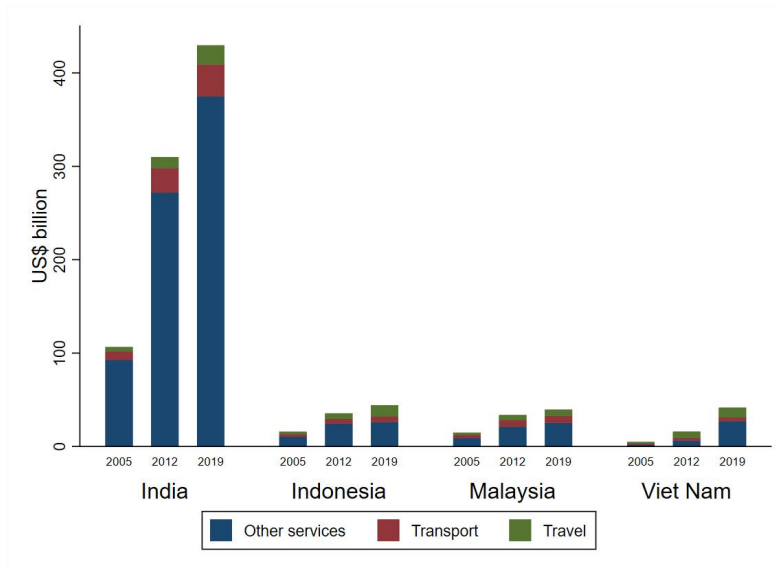


Source: OECD-WTO Balanced International Trade in Services EBOPS 2010 (2005-2019) - (Experimental data set).

18. According to the IMF Middle East and Central Asian Dept. Morocco Country Report 20/14, published on January 8, 2020 (Link): "The continued expansion of Moroccan banks in Africa provides diversification and profit opportunities but is also a potential channel of risk transmission that the authorities are closely monitoring".

19. Oxford Business Group website (Link).

Figure 23. Morocco's services imports from the IIMV countries by category, 2005 to 2019



Source: OECD-WTO Balanced International Trade in Services EBOPS 2010 (2005-2019) - (Experimental data set).

Note: Commercial services and other commercial services have been combined. All other categories have been combined into other services because they are very small.

2.3 FDI flows

Only India and Malaysia in the IIMV group are notable sources of investment to Morocco. India is the Kingdom's sixteenth leading source of FDI (measured by stock), with a share of total investments that increased to 0.4% in 2018. Financial Times fDi Markets data on inward FDI flows from IIMV countries between 2002-2019 shows modest levels of investment originating from India, amounting to about \$100 million per year on average. Indian investments to Morocco over the period have concentrated in transport equipment (about \$500 million), basic chemicals, and plastics. These are sectors in which Morocco has displayed comparative advantage and some levels of integration in GVCs.

A rough measure of the potential for outward investments from IIMV to Morocco is provided by the overall volume of FDI to the world from the grouping, and the sectors in which the countries invest. India, and to a lesser degree Malaysia, are much larger investors than Indonesia and Vietnam. There is also some indication that sectors in which IIMV invest most are also sectors

in which Morocco has a comparative advantage, such as tourism, transport equipment, ICT, and electronics (Table 4). Malaysian investments are most important in energy and construction (accounting for more than half of registered flows), and to a lesser extent tourism. For India, energy and transport dominate, accounting together for a third of the total. It is interesting to note that these four sectors are those in which Morocco has received the most FDI, suggesting potential complementarities between what Morocco can offer to prospective investors, and Malaysia's and India's commercial interests in the Kingdom.

Table 4. IIMV outward FDI flows and Morocco inward FDI flows by sector, 2002-2019 (\$ millions)

Sectors	India	Malaysia	Indonesia	Vietnam	Morocco
Construction	16,298	47,318	3,573	1,760	16,964
Consumer Goods	3,856	672	53	72	294
Creative Industries	3,133	279	32	380	595
Energy	56,305	52,584	2,138	5,372	9,788
Environmental Technology	14,649	14,221	55	1,120	7,319
Financial Services	16,283	5,721	792	2,146	1,312
Food, Beverages & Tobacco	13,447	8,148	896	7,188	2,113
ICT & Electronics	23,003	4,740	542	3,771	3,807
Industrial	19,210	4,032	31	53	1,608
Life sciences	8,356	1,738	790	143	448
Physical Sciences	22,416	2,521	443	1,685	508
Professional Services	3,941	544	22	16	764
Retail Trade	41				
Tourism	6,130	15,385	24	1,293	10,119
Transport Equipment	31,895	7,429	541	113	11,389
Transportation, Warehousing & Storage	3,649	9,288	730	276	3,537
Wood, Apparel & Related Products	3,571	1,387	11,660	158	1,007
Total	246,183	33,489	12,955	1,840	26,052

Source: fDi Markets from the Financial Times, 2019, Author's calculations.

3. Insights From Moroccan and IIMV Preferential Trade Policies

This section examines the nature and scope of preferential agreements currently entered into by Morocco on the one hand, and by the IIMV grouping on the other. Using the World Bank's Deep Trade Agreements database²⁰, this section reviews the nature of existing trade preferences, for both goods and services, as well as the nature and scope of the deep integration disciplines assumed, which are all relevant for understanding the policy space that Morocco and its prospective IIMV trading partner might have in future negotiations.

3.1. IIMV: PTAs Review and Trade Liberalization Strategy

We first look at the nature of the preferential agreements IIMV countries have with regional and international partners. The preferences granted currently by IIMV countries provide valuable information about whether some of the sectors of these economies are sensitive and remain protected, as well as the potential size of preferences Morocco could expect to receive if it were to enter into an agreement with any of the four countries.

A. Review of Existing and Prospective PTAs for IIMV

Over the past decade, several important regional agreements have been concluded by Asian countries, but only a few with non-traditional partners. India is party to 16 PTAs, Malaysia to 14, Vietnam to 12, and Indonesia to 10 (Annex 8 A-E). Most of the preferential agreements to which IIMV countries are party involve Asia-Pacific countries, as shown by the recently signed Regional Comprehensive Economic Partnership (RCEP) between the 10 ASEAN members, China, the Republic of Korea, Japan, Australia, and New Zealand. In this rich landscape of regional agreements, few agreements can be found with non-traditional partners such as Morocco.

One exception is the Malaysia-Turkey agreement, which aims to maintain the tariffs that Turkey granted to Malaysia under the GSP scheme²¹, but which would not apply in the case of Morocco because there is no GSP scheme.

20. Available at: <https://datatopics.worldbank.org/dta/>.

21. As of January 1, 2014, Malaysia is no longer a beneficiary under the GSP scheme of Turkey, and may not benefit from cumulation privileges (cumulation makes it possible to use input materials originating in different free trade parties, provided that all parties taking part in the process have free trade agreements with one another using the same rules of origin). Malaysia maintained most of the tariffs at GSP levels or lower. Malaysia's tariff commitments are more generous than those of Turkey, except on certain agricultural products including rice and palm oil.

Another exception is the Mercosur-India agreement, but this covers only tariff cuts on a positive list of 450 products. Talks on extending this agreement have been going on for several years, but without success²².

Outside the region, the four IIMV countries are at various stages of negotiating preferential trade deals with Europe, the Americas, Africa, and the Gulf region. Vietnam already has an agreement with the EU, and Indonesia started negotiations in 2016, while negotiations between Malaysia and the EU have been on hold for more than a decade²³. Indonesia already has an agreement with the member countries of EFTA, which are involved in ongoing negotiations with Malaysia, India, and Vietnam²⁴. With respect to the Americas, Malaysia and Vietnam both have preferential ties with Canada, Peru, and Chile under the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Since the demise of the CPTPP, there have been no negotiations with the U.S.²⁵. India has expressed interest in expanding its relations with the African continent, with negotiations with Mauritius at an advanced stage. In 2008, India initiated free trade talks on goods trade with the member states of the Southern African Customs Union (SACU). Negotiations stalled, but both parties expressed their intention to resume negotiations in July 2020²⁶. Moreover, a joint study group was established to explore the feasibility of an agreement with COMESA in 2012, without however leading to concrete advances. Finally, there have been discussions on a free trade pact with the member states of the Gulf Cooperation Council (GCC)²⁷, with which India maintains strong economic, trade, and migration ties. India and the GCC signed a framework agreement in 2004, which led to two rounds of negotiations, but nothing more since 2008²⁸. Malaysia and the GCC signed a framework agreement in 2011, with the aim of concluding a free trade agreement, but negotiations have been on hold since 2017. More recently, Indonesia signed an MoU addressing commercial cooperation issues with the GCC in August 2019²⁹.

22. The major product groups covered in the offer list of MERCOSUR are food preparations, organic chemicals, pharmaceuticals, essential oils, plastics & articles, rubber and rubber products, tools and implements, machinery items, electrical machinery, and equipment. Consulted on January 31, 2021, on the India Trade Portal website ([Link](#)).

23. India started negotiations in 2007 but the talks have been on hold since 2013. Malaysia started negotiations in 2010 but the talks have been on hold since 2012. Consulted on January 19, 2021, on the European Commission website ([Link](#)).

24. Consulted on January 19, 2021, on the EFTA website ([Link](#)).

25. Negotiations between the U.S. and Malaysia were suspended in July 2008.

26. Consulted on January 19, 2021, on website of India's Ministry of Commerce and Industry ([Link](#)).

27. Consulted on January 19, 2021, on the New Straits Time ([Link](#)).

28. Consulted on January 19, 2021, on website of India's Ministry of Commerce and Industry ([Link](#)).

29. Consulted on January 19, 2021, on the website of the GCC Secretary General ([Link](#)).

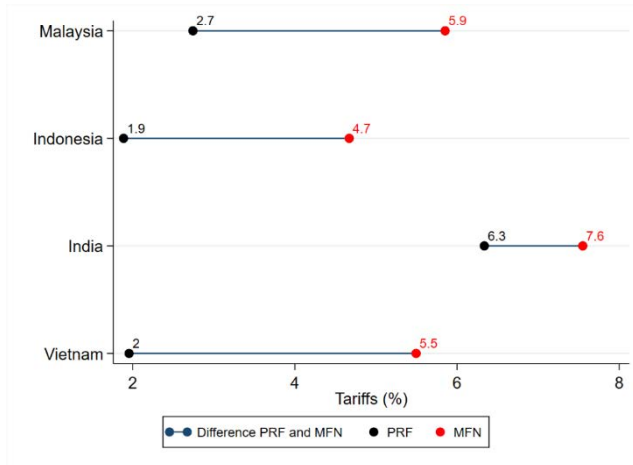
B. Preferential Tariffs granted by IIMV countries and Non-Tariff Measures (NTMs)

The main conclusion that emerges from the analysis of existing tariffs and trade preferences granted by IIMV countries to their partners is the limited scope for extensive trade preferences for goods. IIMV countries already apply relatively low MFN tariffs, apart from a few sectors with sensitive products: the average MFN tariffs³⁰ for these countries are respectively 4.7%, 5.5%, 5.9%, and 7.6% for Indonesia, Vietnam, Malaysia, and India. Thus, if Morocco concludes a free trade agreement with these countries, there is not a huge amount of scope for tariff reduction given existing low MFN tariffs (Figure 24). While India's tariffs are somewhat higher than the three other countries, India's MFN tariffs are not particularly high by international standards (10% on average), except for animals (>20%), vegetables (>30%), and foodstuff (>50%). Even if there is scope for relatively greater tariff preferences with India, in practice India grants small preferences to its partners, only 1.3% on average. (Annex 12).

Indonesia, Malaysia, and Vietnam offer more generous preferences, with variations corresponding to different tariff profiles in each country. Some sectors, such as foodstuffs (Malaysia), footwear/apparel (Vietnam and Indonesia), and transport (Malaysia, Indonesia, and Vietnam) have relatively higher MFN tariffs and offer Morocco the possibility to negotiate greater preferences. Indonesia and Malaysia have liberalized their trade preferences the most, with tariffs below 5% and close to zero, except for one category: foodstuffs (7.5% for Indonesia, 18% for Malaysia). See Annex 13 and Annex 14. Finally, Vietnam has slightly higher average tariffs than Indonesia and Malaysia, but all below 10% (Annex 15). The highest tariffs are imposed on the footwear and transport categories, while tariffs on foodstuffs are lower than in the other three IIMV countries. As shown below, average preferences granted by IIMV are much lower than preferences currently received by Morocco from its existing PTA partners.

30. Weighed by total imports.

Figure 24. Overall preferential tariffs margins offered IIMV are relatively small



Source: Deep Trade Agreements Database, Author's calculations.

Note: Preferential tariffs on the left and MFN on the right.

Tariffs are low and the main barriers to market access are likely to be non-tariff measures (NTMs), which tend to be relatively high in the IIMV grouping and include the existence of bilateral NTMs for Morocco. NTMs are defined by UNCTAD as "policy measures, other than ordinary customs tariffs, that have the potential to have an economic effect on international trade in goods by altering traded quantities or prices, or both." These include sanitary and phytosanitary measures, technical barriers to trade (e.g. labeling requirements), conditional trade defense measures (e.g. non-automatic licenses, quotas). While some of them are of great importance for the protection of consumers, others aim at protecting domestic producers. According to the latest WTO trade policy analysis, the IIMV grouping applies numerous NTMs, creating market-access barriers for Moroccan products. Annex 10 shows that the IIMV grouping has imposed a total of 6,129 NTMs on all countries, and 77 bilateral NTMs specifically on Morocco. India has introduced the most NTMs, with a total of 3,663 NTMs against all members, and 33 bilateral NTMs on Morocco. India is followed by Indonesia (944 on all members; 77 on Morocco), Malaysia (825 on all members; 20 on Morocco), and finally Vietnam (687 on all members; 7 on Morocco). Most of these NTMs are for primary goods and textiles.

C. Deep Integration Measures of IIMV PTAs

PTAs signed by IIMV countries are usually far-reaching, covering not only goods but also services, investment, and related regulatory measures. However, deep trade agreements seem to be the norm in regional, rather than in international, trade integration. IIMV countries are party to PTAs covering services with developed country partners under the GATS Art. V clause. Five of India's 12 PTAs cover trade in services, while more than half of the agreements signed by Indonesia (5/9), Malaysia (9/14) and Vietnam (8/11) do. As most of these PTAs were signed with advanced economies, this trend implies that there are generally fewer exceptions or carve-outs, and a higher overall level of scheduled commitments, which Morocco would be expected to follow.

Moreover, legally enforceable policies³¹ are on average more common and ambitious in PTAs signed by IIMV countries (India excepted). However, on average Morocco has a higher number of legally enforceable policy areas than India. This is mainly due to its agreement with the U.S., which covers goods and services. Morocco's PTAs tend to be shallower than those of the IIMV countries. On the other hand, Malaysia and Vietnam have signed the deepest PTAs by virtue of their membership of both the CPTPP and the Regional Comprehensive Economic Partnership (RCEP), as shown in Figure 25. As a result, Morocco may have to make more concessions in terms of policy areas covered, and will likely need to address more policy areas than it has in the past.

IIMV countries are part of deeper PTAs but apply generally more restrictions on trade in services and FDI. In terms of FDI restrictiveness³², IIMV countries tend to be much more restrictive than the average OECD country (Figure 26). A measure of Services Trade Restrictiveness Index³³ (STRI) that includes Mode 1 and Mode 3³⁴, shows that on average the IIMV grouping is most restrictive in professional and financial services, followed by transportation and distribution,

31. The legal enforceability of the PTA provisions is coded according to the language used in the text of the agreements. It is assumed that commitments expressed with a clear, specific, and imperative legal language, can more successfully be invoked by a complainant in a dispute-settlement proceeding, and therefore are more likely to be legally enforceable. In contrast, unclearly formulated legal language might be related to policy areas that are covered but that might not be legally enforceable. Maximum number of policy areas mapped: 52. For more information on policy areas mapped see Hoffman et al (2018).

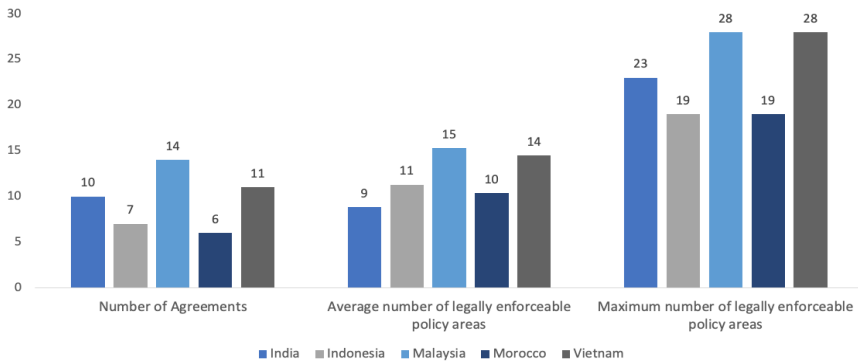
32. FDI restrictiveness gauges the restrictiveness of a country's FDI rules by looking at four main types of restrictions: foreign equity restrictions; discriminatory screening or approval mechanisms; restrictions on key foreign personnel; and operational restrictions.

33. The STRI ranges from 0 to 100, where 0 indicates that none of the restrictions underlying the index is applied, and 100 means that the mode is completely closed to foreign services and service suppliers. The STRI is currently not computed for architecture, engineering, computer and related services, construction, health, and tourism and travel related services.

34. Mode 1 refers to trade in services where the service provider from one country serves a consumer in another country, and mode 3 refers to a foreign service supplier serving a consumer in the home country through commercial presence.

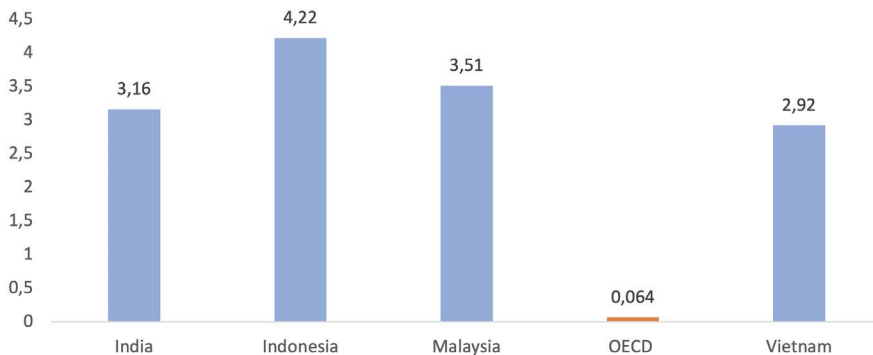
while the least restrictive is telecommunications (Figure 27). Among the IIMV grouping, India is the most restrictive for trade in services, while Vietnam is the least. As a whole, access to services is also significantly more restricted than in Morocco’s current PTA partners. Given the relevance of services to Morocco’s overall exports, this would suggest incorporating services alongside goods in any market access strategy with IIMV countries.

Figure 25. IIMV and Morocco FTA enforceability and coverage of policy areas in PTAs

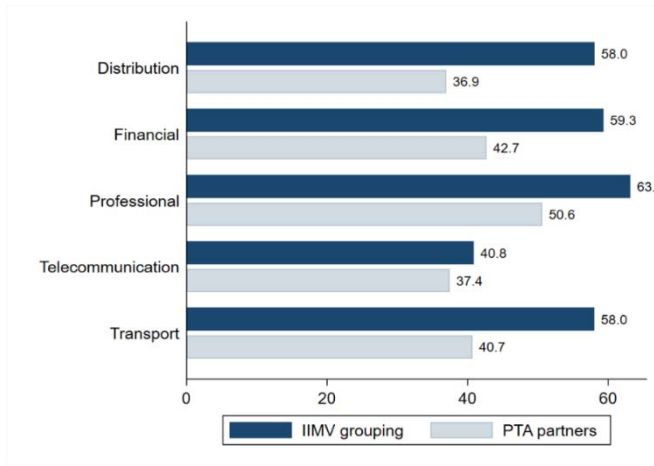


Source: Deep Trade Agreements Database, Author’s calculations.

Figure 26. IIMV FDI restrictiveness in comparison to OECD average in 2019



Source: OECD FDI restrictiveness indicator, Author’s calculations. Note: The index here shows the total taking values between 0 for open and 1 for closed.

Figure 27. STRI for IIMV grouping and Morocco PTA partners in 2018

Source: WTO I-TIP database, Authors' calculations. For more information on the database consult Borchert, Gootiiz, Magdeleine, Marchetti, Mattoo, Rubio and Shannon (2019).

3.2. Review of Morocco's Existing PTAs: Untapped Opportunities?

A. Review of Existing and Prospective PTAs for Morocco

Morocco has to date signed preferential trade agreements with six trading partners comprising 53 countries, which accounted for 74.8% of its yearly trade on average during 2016–2018 (74.4% of its exports and 74.6% of its imports). Overall, this share has not changed significantly since 2002, when trade with the Kingdom's PTA partners accounted for 75.30% of exports. The EU bloc accounts for the largest share of Moroccan trade, with Spain and France, the Kingdom's two largest partners, absorbing 40% of Morocco's aggregate exports.

The signing of the African Continental Free Trade Area among 53 African Union members may open up new trade opportunities with Africa. Currently, trade with Africa (LDC eligible countries) represents a modest part of Morocco's total trade (3% of imports and 0.2% of exports). While trade remains modest, Morocco is a significant investor in several African markets: the AfCFTA may thus offer significant new opportunities to reinforce economic ties with the continent (Maliszewska and Ruta, 2020). Morocco's leadership on the continent would require the ratification of the AfCFTA, and the establishment of a strategic roadmap for its implementation.

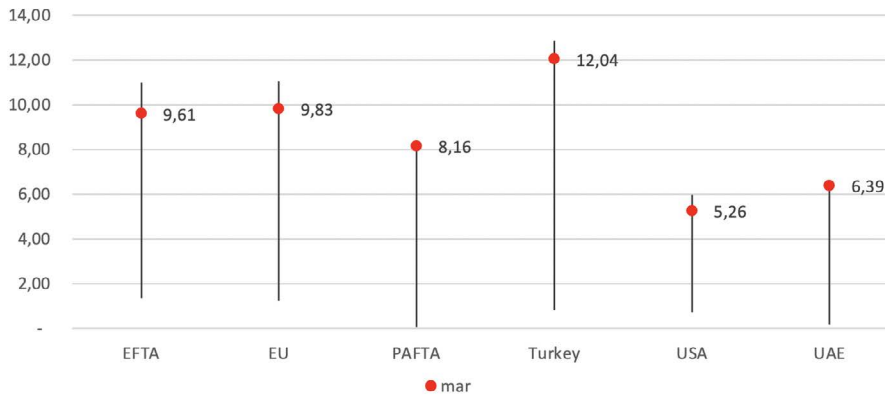
B. Preferential tariffs offered by Morocco

Morocco grants substantial preferences in goods trade: much of its trade with PTA partners is already open and subject to low or no tariffs. Morocco's MFN tariffs are relatively high with non-PTA partners, and therefore Morocco is in a position to offer substantial concessions in the context of preferential agreements. This is however counterbalanced by the relatively small size of Morocco's internal market when it comes to imports of intermediates or consumption goods. It should also be noted that duty-drawback systems are in place that allow exporters to request a refund for duties paid on intermediates or machinery used in export activities.

In the agreements Morocco has with Turkey, PAFTA, and the UAE, almost all goods enter the Moroccan market on a duty-free basis. In the case of Turkey, the preferences granted for footwear, foodstuffs, and agricultural products explain the large average preferential margin of 12.04%. Although generally enjoying lower preferences, most other trading partners enjoy non-negligible preferences in the order of 9%-10% on average (Figure 28), except for the U.S. and UAE (the latter probably explained by a narrow export base), for which average preference margins are slightly above 5%. Finally, Morocco also offers substantial preferential tariffs to the EU with a preferential margin of 9.83%. Goods imported from preferential partners are subject to very low tariffs, ranging on average from 0% and 1.38%.

Morocco maintains high tariffs on five product categories: animals, vegetables, foodstuffs, footwear, and stone and glass (Figure 29). For the first four product categories, it grants partial preferences of more than 10%. Foodstuffs are among the largest imports from IIMV countries. In the agreements with the EU, Turkey, and the U.S., there are no or limited preferences for agricultural products and food, which are extended to Arab partners.

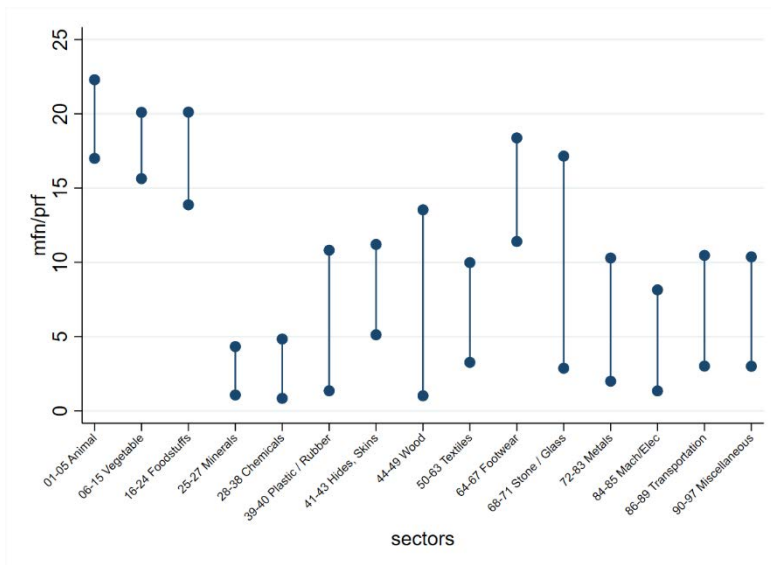
Figure 28. Average margins of preference offered by Morocco in PTAs



Source: authors from WB Deep Trade Agreements Database 2.0, Author's calculations.

Note: each bar shows at the top the MFN tariff and at the bottom the preferential tariff (weighted by Morocco's exports). The red point is the preference margin.

Figure 29. Morocco's preferential tariffs are overall lower than 5% in most categories except for agricultural products, foodstuff and footwear



Source: Deep Trade Agreements Database, Author's calculations. Note: Preferential tariffs on the bottom and MFN on top.

C. Preferential Tariffs Received by Morocco

A review of the preferences granted to Morocco in its existing PTAs suggests that the Kingdom benefits from much larger preferences for goods trade than it could hope for from preferential ties with IIMV countries.

Morocco receives relatively generous preferences in the markets of its PTA partners, ranging from 1.8% to 7.9% on average³⁵, on an ad-valorem basis, with the EU offering the highest margins. Such preferential margins are slightly lower than those Morocco grants to its partners (Figure 28). However, the preferences Morocco receives vary significantly across different PTAs (Figure 30). Preferential margins are the highest on average in the PTAs with the EU, Turkey, and PAFTA countries. With Morocco's main trading partner—the EU—the average preferential tariff is almost negligible at 0.53%. A closer look at specific product categories shows that the largest tariff preferences are for foodstuffs at 15.54% and textiles at 11.64%. The preferential tariff for transport equipment is also large at 8.96%. Morocco's largest export categories to the EU, namely auto parts and apparel, are among those receiving these significant preferences, highlighting how Morocco takes advantage of the opportunities offered by the PTA. This might also indicate that Morocco's competitiveness depends on these large artificial cost advantages (relative to competitors exposed to the EU's MFN tariff).

The PAFTA and Turkey agreements also offer generous access to Moroccan exporters, with average preferential margins of 7.54% and 5.77%, respectively. In the case of PAFTA, textiles/apparel, footwear, and machinery benefit from relatively significant preferential margins. In the food sector, there is potential for very high preferences, but these are not exploited given that Morocco's exports are concentrated in categories with lower preference margins, such as foodstuffs, which has one of the lowest preferential margins at 5.3%. With respect to Turkey, the highest tariffs are found in the animals, vegetables, and foodstuff categories, which are subject to MFN tariffs, while preferential margins for other product categories are relatively high, once again revealing Morocco's tendency to export products with high protection in foreign markets.

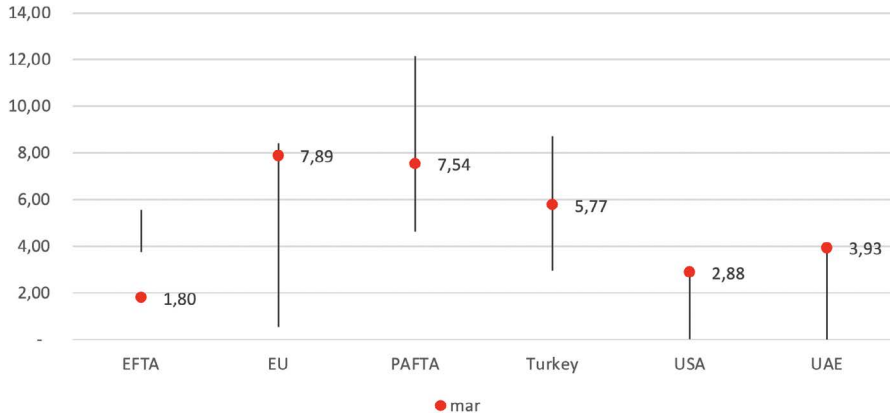
Morocco exports products that do not always receive the highest preferences possible in its PTAs with the U.S., EFTA, and the UAE. For instance, with the U.S., the average margin of preference received is much lower (2.88%) than for exports to other preferential partners, although the U.S. grants preferences equivalent to those of the EU for textiles (12.39%) and footwear (8.56%), the two product categories with the highest preference margins. The low average preference is due to the prevalence of phosphate exports. This begs the question

35. Imports weighted average.

of whether the Kingdom is able to fully exploit potential preferences, or is missing opportunities for export expansion that may be traced to inadequate export promotion efforts, or the prevalence of non-tariff barriers. Similarly, agreements with EFTA and the UAE also offer comparatively lower average preferences, of 1.8% and 3.93% respectively. In both cases, this can be explained by the fact that MFN tariffs are low, and thus the scope for preferential-terms access is smaller.

Finally, some of Morocco's PTAs offer only partially liberalized tariffs. This is notably the case of agreements entered into with EFTA, Turkey, and PAFTA, which offer limited tariff preferences when compared to other PTAs. The case of Turkey is different given that the country maintains relatively high MFN tariffs, thereby allowing Morocco to benefit from low preferential tariffs on its exports (6%). Moreover, the PTA with Turkey does not grant preferences to agricultural products and foodstuffs, both of which are subject to high MFN tariffs exceeding 20%. On the other hand, the PAFTA agreement offers partial liberalization across all product categories.

Figure 30. Preferences received by Morocco in FTAs



Source: authors from WB Deep Trade Agreements Database 2.0.

Note: each bar shows at the top the MFN tariff and at the bottom the preferential tariff (weighted by Morocco's exports).

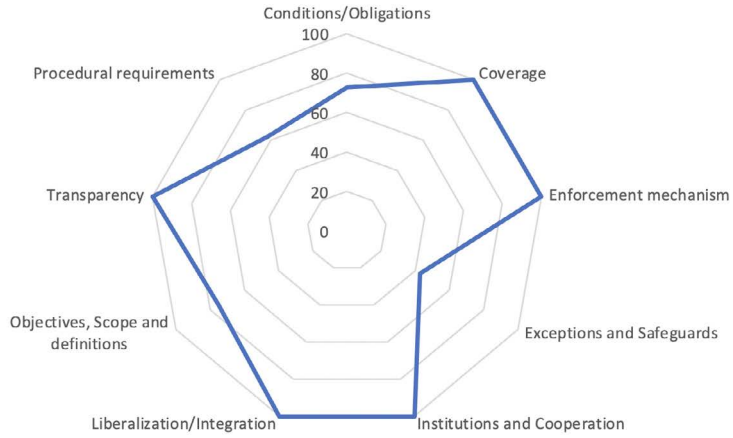
D. Trade in Services and Investment Provisions are excluded from most Morocco's FTAs

Morocco's PTA with the U.S. is the only one that covers services and investment with legally enforceable provisions (Annex 9). While the bilateral agreement with the U.S. is comprehensive in scope, it is probably more reflective of prevailing geo-political circumstances at the time and of Morocco's mounting appetite for deeper forms of bilateral integration rather than the United States' offensive agenda given the asymmetries in market size. The depth of the agreement can be assessed using the newly built Deep Trade Agreements Database (World Bank) which identifies various levels of commitments for each policy areas in PTAs as follows³⁶: (a) Conditions/Obligations, (b) Coverage; (c) Enforcement mechanism; (d) Exceptions and Safeguards; (e) Institutions and Cooperation; (f) Liberalization/Integration; (g) Objectives, Scope and definitions; (h) Transparency; and (i) Miscellaneous. Figure 31 and Figure 32 show the commitments in the U.S.-Morocco PTA on services and investment. The agreement seems to cover services broadly, while the PTA's investment provisions seem to be more limited in scope, focusing chiefly on obligations and enforcement mechanisms with a medium coverage, and some safeguards and exceptions. However, it should be noted that Morocco has a bilateral investment treaty (BIT) in force with the U.S. since 1991, which complements the PTA in terms of investments.

Most agreements signed by Morocco are relatively shallow, perhaps reflecting the Kingdom's cautious approach toward services and regulatory liberalization. Even in the case of agreements covering a broader range of provisions, such as Morocco's Association Agreement with the EU, most such provisions remain hortatory in character, meaning the agreement is essentially centered on liberalization of trade in goods, with provisions aiming at future negotiations towards greater comprehensiveness and legally-binding provisions currently not followed with effect (Table 5).

36. Mattoo et al (2020) provided detailed information and definitions on the policy areas and their commitment.

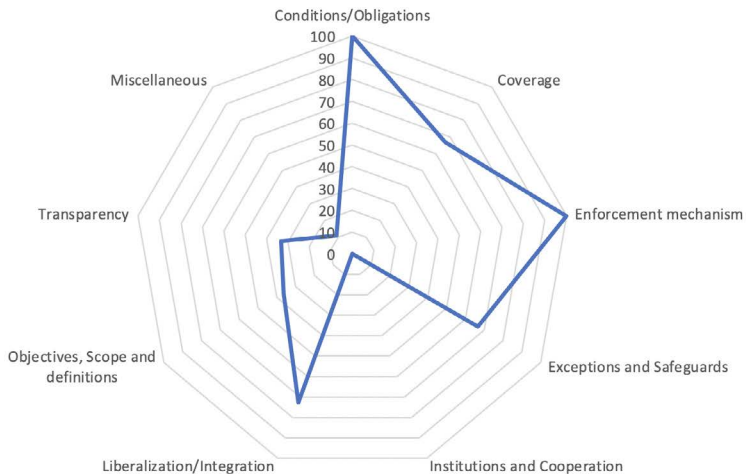
Figure 31. US – Morocco PTA commitments with respect to services policy areas



Source: WB Deep Trade Agreements Database 2.0, Author’s calculations.

Note: coverage range is from 0% to 100%. Policy measures that are fully covered are 100%.

Figure 32. US – Morocco PTA commitments with respect to investment policy areas



Source: WB Deep Trade Agreements Database 2.0, Author’s calculations.

Note: coverage range is from 0% to 100%. Policy measures that are fully covered are 100%.

Table 5. Depth of Moroccan PTAs

	US - MAR	EU - MAR	EFTA - MAR	Turkey - MA	Agadir Agr.	PAFTA
Competition Policy	✗	✓	✓	✓	✗	✗
Environmental Laws	✓	●	✗	✗	✗	✗
Investment	✓	●	●	✗	✗	✗
Labour Market Regulation	✓	✗	✗	✗	✗	✗
Movement of Capital	✓	✓	✓	✗	✗	✗
Public Procurement	✓	●	●	✓	●	✗
Services	✓	✗	●	●	●	✗
Trade Facilitation and Customs	✓	✓	✓	✓	✓	✗
Visa and Asylum	✓	✗	✗	✗	✗	✗

- ✓ Legally enforceable
- Policy Area Covered
- ✗ Not included

Source: WB Deep Trade Agreements Database 2.0, Author's calculations.

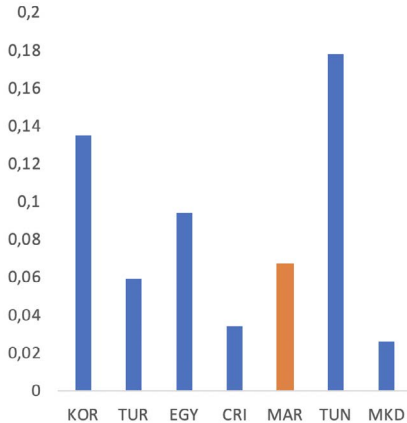
FDI in Morocco mostly originates from PTA partners (over 90% of FDI stocks), despite the absence of enforceable treaty provisions in these agreements (including with the EU). This is explained by Morocco's relatively open policy stance towards foreign investment, and the fact that the Kingdom entered BITs with several individual EU countries, notably those that have invested the most in Morocco. It should however be noted that in the case of the agreement with the EU, provisions on the movement of capital (and thus on the repatriation of profits) are legally enforceable, which plays a positive role for prospective investors. Among Morocco's other PTA partners, FDI from the U.S. has increased over the past decade.

Morocco's FDI restrictiveness³⁷ is comparable to that of its peers, but much less restrictive than the IIMV grouping, as Morocco has managed to make major leaps in economic development with the advent of transformative FDI (Figure 33). FDI can potentially contribute to investment and jobs, but it is the spillover potential—the productivity gain resulting from the diffusion of knowledge and technology from foreign firms to local firms and workers—that is perhaps the most valuable contribution to long-run growth (Farole and Winkler, 2013). Reform processes that reduce trade policy barriers (tariff and non-tariff measures), or even liberalize FDI into manufacturing, are incomplete if they do not also reduce barriers to entry and expose the services sectors to greater competition. In addition, Morocco has several bilateral investment treaties in force with India (2001), Indonesia (2002), and Malaysia (2009)³⁸. Finally, Morocco's services restrictiveness is highest in the transport sector (Figure 34).

37. OECD (2021), FDI restrictiveness (indicator). doi: 10.1787/c176b7fa-en (Accessed on February 4, 2021).

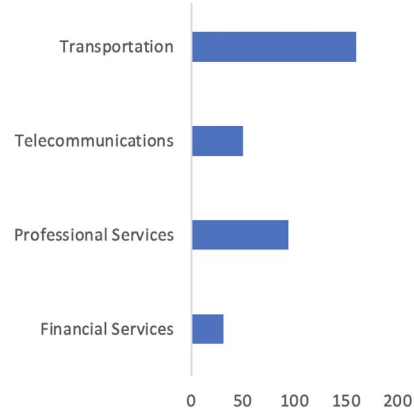
38. According to the UNCTAD International Investment Agreements Navigator (link).

Figure 33. Morocco's FDI restrictiveness is lower than its peers but higher than some



Source: WB Services Restrictiveness Database, Author's calculations. Note: It ranges from 0 to 100, where 0 indicates that none of the restrictions underlying the index is applied, and 100 means that the sector/mode is completely closed to foreign services and service suppliers. The data was collected in 2008, except if indicated differently.

Figure 34. Morocco's FDI restrictions are highest in transportation



Source: OECD FDI restrictiveness indicator, Author's calculations. Note: The index here shows the total taking values between 0 for open and 1 for closed. FDI restrictiveness is gauging the restrictiveness of a country's FDI rules by looking at four main types of restrictions: foreign equity restrictions; , discriminatory screening or approval mechanisms; , restrictions on key foreign personnel, and operational restrictions.

4. Looking Ahead

Summary of key facts

Preferential Trade Agreements play a central role in Morocco's external economic relations and have determined the recent evolution of Morocco's external competitiveness. It is therefore logical to consider preferential trade in a strategy of export diversification. Preferential trading partners (excluding GSP) account for 75% of Morocco's trade (nearly 75% of exports and 75% of imports), and at least 91.5% of the Kingdom's FDI stock. The EU accounts for about 70% of total exports. Among the positive developments associated with such trends is the diversification of Moroccan exports into more sophisticated goods, including auto parts/assembly, electronics, and textiles. Trade volumes with other PTA partners have also increased, and Morocco's export basket with

them has diversified, suggesting evidence of spillover effects within preferential trade partners. This can be attributed to intensified participation in global value chains thanks to the association with the EU, as well as FDI attractiveness. These effects seem to have played out with geographically close partners: export to the U.S. have not followed this pattern of diversification, instead tending to become more concentrated. This was not because fewer products were exported, but rather because of the increase in the relative share of phosphate exports destined for the U.S. market. However, in terms of FDI, U.S. investment in Morocco has increased in recent years. This contrasts with trade patterns with countries that are not part of Morocco's PTA network, or are partners in relatively shallow PTAs that have not produced similar diversification.

IIMV market attractiveness to Morocco

The markets of India, Indonesia, Malaysia, and Vietnam are large, generally growing above the world average, and therefore attractive. India (the world's fifth largest economy by GDP), Indonesia (16th), Malaysia (37th) and Vietnam (46th) are all significantly larger economies than Morocco. Vietnam's economy is two and a half times the size of Morocco's, the 60th largest in the world. IIMV are also among the fastest growing economies: Vietnam (7%), Indonesia (5%), Malaysia (4.3%), and India (4.2%), compared to Morocco's 2.2% in 2019 (IMF).

Large IIMV markets may not however offer opportunities in product categories where Morocco traditionally enjoys a comparative advantage. Morocco is a marginal exporter to the region, with phosphates being by far the leading exported product. Therefore, there is a very narrow base to build on. Looking at products where Morocco has enjoyed recent success, such as auto parts, foodstuffs, and vegetables, many such products rely on value chain networks anchored in Morocco's physical proximity to its main export markets in the EU.

On the services side, sources of comparative advantage for Morocco in the IIMV markets appear thinner, with barriers such as language and differing legal structures weighing on prospects for expanded exports. India's competitive prowess and first mover advantages in many service market segments are also drags on potential Moroccan exports.

Cultural proximity to countries where the Islamic faith plays an important role, notably in India, Indonesia, and Malaysia, could however generate increased prospects for niche products for Moroccan firms from goods (halal products or religious clothing), to services (related to Islamic finance, tourism, or education for instance).

Morocco's attractiveness to IIMV

Morocco's moderate market size weighs on its attractiveness to large exporters from India (12th exporter of goods and 7th in services in value in 2019), Vietnam (24th and 49th), Malaysia (28th and 32nd), and Indonesia (29th and 37th).

However, Morocco is well placed to leverage its strategic location between Europe and Africa. It can serve as a gateway for enhanced access to African markets under the AfCFTA, an attribute that may prove particularly useful in deepening ties with India, given the latter's growing interest in scaling up trade and investment ties with Africa. Europe is already Morocco's largest economic partner, and Morocco's economic ties with Africa are deepening, a trend that will accelerate as the AfCFTA is implemented and its normative scope broadens to address services, investment, digital trade, and procurement matters. Morocco is also well connected to international trade routes, and its high-quality transport infrastructure can make it an attractive hub for its partners. Morocco can bank on its proximity to major markets in the context of its firms' growing participation in regional value chains. The Kingdom's value proposition is rooted in geographical considerations, including the connectivity gains offered by Tangier Med port, and in the Kingdom's dense network of preferential ties. Morocco benefits from quasi duty-free access to European markets, and its firms are increasingly embedded in EU value chains. Morocco also has a growing presence in African markets, particularly through FDI, which stands to be reinforced by the AfCFTA, which will remove tariffs on 90% of goods in 52 African country markets. Simulations by Maliszewska and Ruta (2020) showed that Morocco's manufacturing sector could make significant inroads into African markets and be one of the leading beneficiaries of the agreement.

Morocco therefore seems to be more attractive as a base for access to other markets than as a destination market itself. While Morocco's access to preferential regimes on both continents (as well as the U.S.) may prove attractive to investors and exporters from IIMV countries, many other factors may come into play affecting Morocco's overall competitiveness relative to other countries. Indeed, Morocco shares some of the above locational and proximity attributes to EU and Africa with other countries in the region, notably in Central and Eastern Europe, Turkey, and Egypt, as well as other MENA countries.

Among IIMV countries, India is currently the only notable investor in Morocco and is by far the largest trading partner for goods and services of the four countries. Indian investments seem linked to import flows of products destined more to GVCs than for domestic consumption. Foreign direct

investment can continue to expand even in the absence of PTAs to the extent that India and Morocco have both already concluded bilateral investment treaties with three of the four IIMV countries.

Do Morocco and IIMV trade policies offer scope for mutually beneficial commitments?

The preferential agreement strategies of Morocco and IIMV seem relatively far apart. A significant difference between the PTAs signed by Morocco and those signed by IIMV countries is the greater coverage and depth of the latter. While deep PTAs have become the norm in Asia, they remain reserved in the case of Morocco solely to the Kingdom's most powerful trading partners, the EU and the U.S., which have set much of the negotiating agenda. However, it should be noted that the EU deal remains a 'goods-only' PTA.

Given the relative paucity of agreements outside of the regional bloc, it is unclear whether IIMV would seek to pursue the same type of trade relations with new partners (beyond large partners like the EU or U.S., which will request deeper disciplines and market-opening commitments). The evidence is mixed: new agreements being negotiated seem ambitious in scope while agreements with partners outside of the region remain more limited in scope, and negotiations seem to proceed slowly or cautiously.

From the perspective of reducing tariffs on goods trade, a PTA with India would likely not necessarily make Morocco more attractive to India's investors seeking to access partners' markets. While a more detailed study of investment and duty-free regimes would be needed, one can assume that imports of intermediate goods are likely to be exempted from duties in Morocco. However, where a deeper PTA could make a difference is the nature of trade procedures: a full-fledged PTA regime might be simpler than a temporary duty suspension regime in the context of export processing, which would be typically associated with much stricter customs and content requirements³⁹.

Apart from India, IIMV countries have generally pursued more ambitious policies of trade and investment liberalization in goods and services markets, though mostly within Asia. Such ambitions have not been replicated in ties beyond the region for now. Moreover, Malaysia and Indonesia, and to a lesser extent Vietnam, already have relatively low tariffs, further reducing the scope for Morocco to gain significantly from preferential terms of access. This raises the question of whether there is much for Morocco to gain from the proposed new PTA partnerships, a question that could be explored more thoroughly through quantitative simulations of alternative bilateral-liberalization scenarios.

39. See WTO 2016 TPR table 3.12 for more detail.

The greater depth of the existing PTAs of IIMV countries, covering not only goods but also services and a host of regulatory measures, including digital trade, are far-reaching by contrast to Morocco's PTAs. Most of Morocco's PTAs are rather shallow compared to those of the IIMV grouping, except for its trade agreement with the U.S., for which asymmetric negotiation from the U.S. side played a more important role than Morocco's appetite for deeper forms of bilateral integration.

What now for Morocco?

The relatively positive impact that heightened PTA participation has exerted on Morocco's competitiveness in external markets, and the lack of progress in global liberalization efforts, justify Morocco's strategy of seeking the trade and FDI growth opportunities PTAs can provide. Looking at opportunities for further geographic diversification makes perfect sense in this context. However, diversification does not only mean seeking to open markets with non-traditional trading partners (i.e. outside the existing PTA network), but possibly with existing ones as well. Indeed, a strategic approach involves balancing trade-offs between different partnerships. One such approach might be to explore how existing agreements can be deepened, and to explore whether further trade and investment liberalization and expanded opportunities exist in traditional markets, noting that preferences have not been maximized in all agreements, and that in other preferences could be increased to duty-free access to partners' markets. The potential for such opportunities could be weighed against the potential arising from new agreements, including with IIMV countries. Arguably, deepening existing trade agreements to cover services trade and regulatory aspects would offer additional avenues to improve market access.

In addition to seeking new market access, Morocco should deepen its trade and investment ties with the EU to diversify its exports by fully exploiting its export potential beyond France and Spain while also leveraging the gains resulting from meeting product standards. This is particularly so in the EU, to which Morocco exports a very high volume of goods and services, but also the United States, with which Morocco has signed a deep PTA covering both goods and services trade. Morocco should look for opportunities to expand the range of markets in the EU beyond France and Spain, to Germany and Italy for example, as well as with the United Kingdom, while deepening relations with the U.S., and focusing more on the near abroad in Africa. The most important aspect of the EU as a trading partner for Morocco is that it represents a large market with similar standards and quality procedures that Moroccan companies can take advantage of to expand their export performance by accessing new business opportunities in EU countries other than France and Spain. There is little point

in having access to one of the largest markets in the world if Moroccan exporters only reach a few corners of it. Morocco would gain even more by finding ways to include services in its PTA with the EU.

A unilateral reduction of MFN tariffs for non-PTA partners can improve Morocco's trade prospects in new export markets beyond its traditional partners, and help diversify its export mix. Apart from increasing the likelihood of retaliatory measures and decreasing the interest of targeted partners in preferential relations with Morocco (such as the IIMV countries), the dampening effect of tariff increases may heighten Morocco's dependence on trade with existing PTA partners, as firms have no incentive to seek new destinations where there is less market transparency. Moreover, many developing countries have unilaterally reduced their tariffs to rates far below those in effect three decades ago. For example, Mexico has concluded NAFTA (now USMCA since its renegotiation in 2020), but has also lowered tariffs on other countries in Latin America, and on China. This is particularly important in the case of Morocco because some of the tariff increases with China and India affect some intermediate products. This can reduce the competitiveness of smaller exporters and reduce their incentives to begin exporting. Although duty drawbacks are available, such administrative procedures require a certain level of administrative knowledge, which tends to discourage small producers from looking into export activities.

Morocco could seek to revive regional trade integration in the MENA region, with which it shares cultural and linguistic ties. While trade in the MENA region has declined sharply in recent years, due to a lack of trust between member states, Morocco should continue to seek to expand trade through PAFTA, as this can bring great benefits.

Duty-free market access under the AfCFTA, complementing Morocco's already significant presence in Africa through foreign investment, should offer important new market access opportunities. This will however require the implementation and ratification of the AfCFTA with some key trading partners in Africa, potentially opening the door for deeper integration through regional value chains and offering a platform for investors to access both the African and EU markets. The AfCFTA can also improve regional trade integration through the reduction of non-tariff barriers in goods and services trade, and through the facilitation of trade.

Overall, while Morocco needs to look for ways to diversify beyond its traditional export markets, a full-fledged PTA may be premature at this stage, while trade promotion measures could lead to greater export gains in the short term. First, given Morocco's commodity composition and predominant trade

volumes, a deep PTA may not yield significant export gains, nor provide a significant boost to domestic competitiveness. This is particularly the case for services with regard to India, and of various agricultural and food products produced in Vietnam and Indonesia. Second, embracing new PTAs would also confront Morocco with the need to address a number of behind-the-border issues, including services, intellectual property, and investment, areas Morocco has traditionally shunned to date in its goods-trade-only PTAs and where the country has limited negotiating experience. Third, Morocco's increase in MFN tariffs may lead to retaliatory measures and reduce IIMV interest in deepening economic ties with the Kingdom. However, the growth prospects of the region as a whole (including in IIMV countries and beyond), and their large markets, offer interesting prospects for expanding exports in niche markets that would require Morocco to review its trade policy and scale-up the quality of its trade promotion efforts.

Deepening trade and investment ties with IIMV countries is arguably best pursued through more targeted policies rather than via comprehensive preferential trade agreements that may be costly and lengthy to negotiate given the trade volumes at play. Commercial diplomacy through stepped-up trade and investment promotion efforts, focusing on selected value chains of mutual interest, would seem a more cost-effective strategy for improving commercial exchanges with the region in the short term. The Moroccan agency (AMDIE) responsible for trade and investment promotion currently has limited presence and thus little influence on promising export markets in Asia. Efforts need to be made to increase resources for trade diplomacy and trade and investment promotion support, but PTAs do not appear to be optimal instruments for doing so in IIMV countries.

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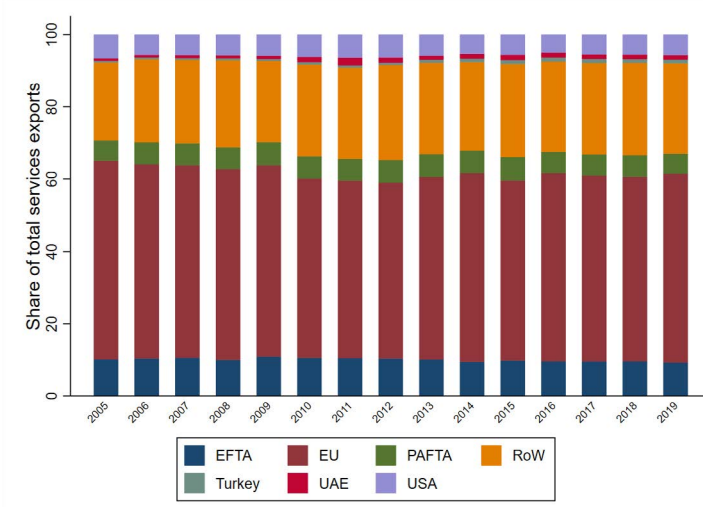
Annexes

Annex 1. Origin of top 20 imports from the rest of the world category, 2005-2007 and 2016-2018 averages

2005 - 2007				2016 - 2018			
Rank	Country	US\$ Million	% of ROW	Rank	Country	US\$ Million	% of ROW
1	China	1,474.92	25.8%	1	China	3,750.59	41.1%
2	Iran	780.13	13.7%	2	Brazil	706.19	7.7%
3	Brazil	538.04	9.4%	3	Korea	636.55	7.0%
4	Japan	448.23	7.9%	4	India	579.65	6.4%
5	South Africa	384.67	6.7%	5	Argentina	504.22	5.5%
6	Korea	372.79	6.5%	6	Japan	486.11	5.3%
7	Argentina	367.37	6.4%	7	Ukraine	456.40	5.0%
8	Ukraine	275.49	4.8%	8	Vietnam	248.82	2.7%
9	India	240.88	4.2%	9	South Africa	226.93	2.5%
10	Thailand	88.85	1.6%	10	Indonesia	184.79	2.0%
11	Indonesia	81.99	1.4%	11	Thailand	152.69	1.7%
12	Malaysia	71.87	1.3%	12	Mexico	145.56	1.6%
13	Honduras	58.40	1.0%	13	Venezuela	106.01	1.2%
14	Uruguay	54.58	1.0%	14	Singapore	104.31	1.1%
15	Venezuela	38.08	0.7%	15	Malaysia	103.73	1.1%
16	Gabon	36.46	0.6%	16	Chile	85.57	0.9%
17	Peru	33.53	0.6%	17	Colombia	63.39	0.7%
18	Hong Kong, China	30.88	0.5%	18	Trinidad and Tobago	60.70	0.7%
19	Nigeria	30.38	0.5%	19	Pakistan	41.06	0.5%
20	Colombia	27.71	0.5%	20	Nigeria	38.35	0.4%
21	Other	272.46	4.8%	21	Other	439.61	4.8%
Total		5,707.71	100.00%	Total		9,121.26	100.00%

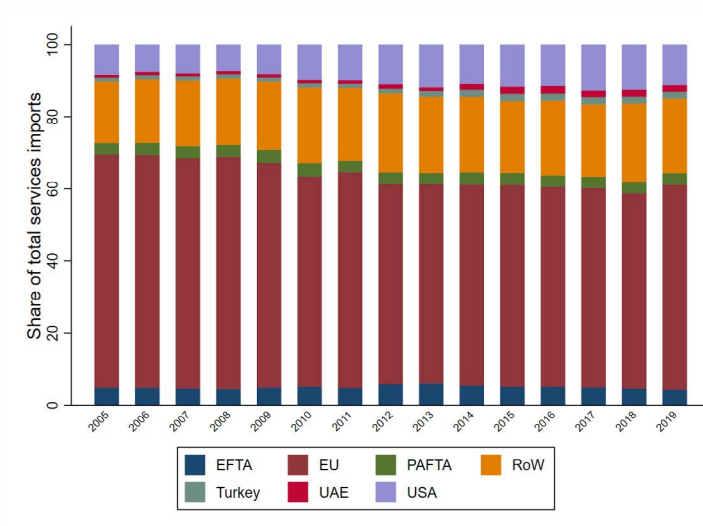
Source: WITS import data, Author's calculations.

Annex 2. Share of total services exports by PTA partners, 2005 to 2019



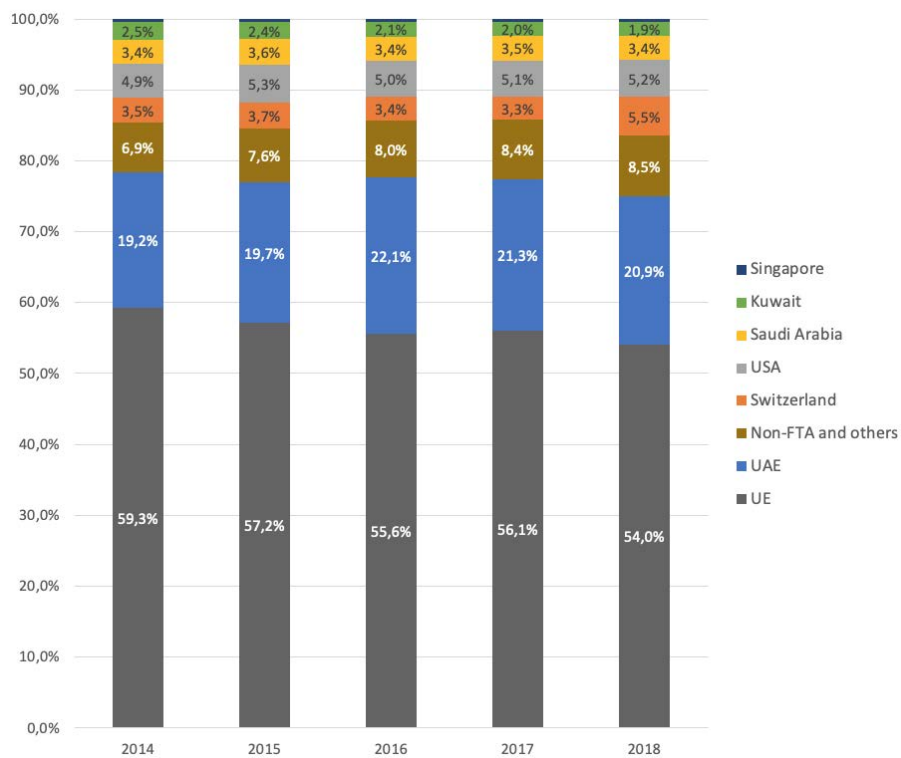
Source: WITS data, Author's calculations.

Annex 3. Share of total services imports from PTA partners, 2005 to 2019



Source: WITS data, Author's calculations.

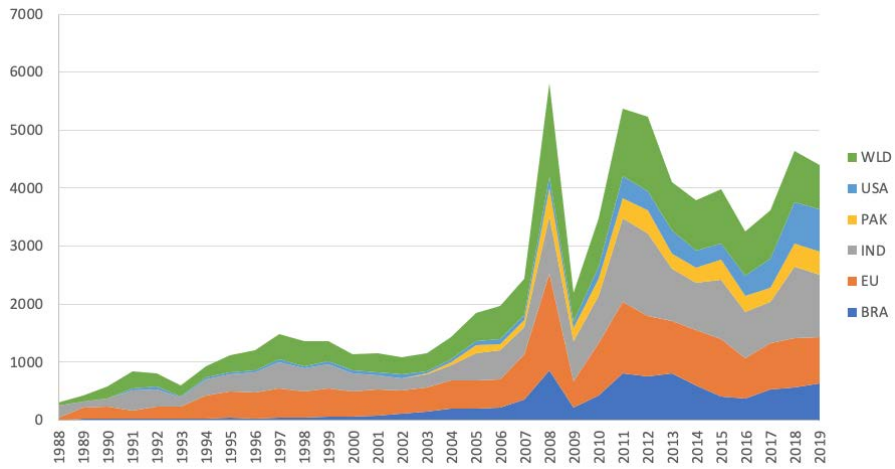
Annex 4. Share of FDI stocks by country of origin, 2014-18



Source: Office des Changes, Authors' calculations

Note: UE includes only France, Spain, UK, Benelux, Germany, Italy, Ireland, Denmark and Sweden

Annex 5. India is the second market destinations for Moroccan phosphate exports



Source: WITS import data, Author's calculations.

Annex 6. Evolution of Morocco's exports to IIMV countries, 2012-18 (in million US\$)

A. India

Rank	HS6	Product	2012		2015		2018	
			Value	% of total	Value	% of total	Value	% of total
1	Comb.	Phosphate	1,422.3	96.0%	1,031.5	93.8%	1,242.9	93.9%
2	Comb.	Metals	36.0	2.4%	24.5	2.2%	36.6	2.8%
3	230120	Fish feeding**	-	0.0%	1.2	0.1%	6.6	0.5%
4	841122	Turbo-propellers*	-	0.0%	-	0.0%	4.9	0.4%
5	121190	Insecticides	0.9	0.1%	2.1	0.2%	3.9	0.3%
Total			1,459.2	98.54%	1,059.3	96.32%	1,294.8	97.87%

B. Indonesia

Rank	HS6	Product	2012		2015		2018	
			Value	% of total	Value	% of total	Value	% of total
1	Comb.	Phosphate	149.0	79.2%	90.0	70.9%	66.8	73.5%
2	Comb.	Textile	12.0	6.4%	16.0	12.6%	20.9	23.0%
3	Comb.	Electronic circuits**	0.0	0.0%	0.0	0.0%	1.1	1.2%
4	841112	Turbo-propellers*	-	0.0%	-	0%	0.6	0.6%
5	854211	Copper	0.3	0.2%	0.5	0.4%	0.3	0.3%
6	640399	Footwear	0.2	0.1%	0.0	0.0%	0.2	0.2%
7	853710	Tobacco*	-	0.0%	-	0.0%	0.1	0.1%
Total			161.5	85.89%	106.5	83.92%	89.9	99.04%

C. Malaysia

Rank	HS6	Product	2012		2015		2018	
			Value	% of total	Value	% of total	Value	% of total
1	Comb.	Electric machines	4.45	32.0%	4.43	23.6%	6.86	29.7%
2	30371	Fish	0.16	1.2%	1.48	7.9%	5.28	22.9%
3	Comb.	Textile	0.07	0.5%	6.41	34.1%	4.24	18.4%
4	760200	Aluminium	-	0.0%	1.07	5.7%	1.95	8.4%
5	150910	Olive oil**	-	0.0%	0.20	1.1%	1.40	6.1%
6	Comb.	Phosphate	3.44	24.7%	4.45	23.7%	0.79	3.4%
7	880330	Aircraft parts**	-	0.0%	0.04	0.2%	0.66	2.8%
8	902690	Measurement instr.	-	0.0%	-	0.0%	0.34	1.5%
Total			8.12	58.31%	18.08	96.22%	21.50	93.15%

D. Vietnam

Rank	HS6	Product	2012		2015		2018	
			Value	% of total	Value	% of total	Value	% of total
1	Comb.	Phosphate	0.61	16.2%	0.11	2.2%	19.23	51.6%
2	Comb.	Textile	0.68	18.1%	1.22	23.7%	9.07	24.3%
3	230120	Fish feeding*	-	0.0%	-	0.0%	2.52	6.8%
4	Comb.	Electronic circuits**	-	0.0%	0.00	0.0%	1.48	4.0%
5	Comb.	Metals*	-	0.0%	-	0.0%	1.07	2.9%
6	841280	Engines and motors**	-	0.0%	-	0.0%	0.52	1.4%
7	Comb.	Paper*	-	0.0%	0.42	8.2%	0.65	1.7%
Total			1.30	34.37%	1.75	34.08%	34.54	92.60%

Source: WITS data, Author's calculations.

Notes: *New product exported in 2019. **Products that started to be exports within the past four years.

Metals include Aluminum (HS 760200), Steel (HS 720421), Cobalt (HS 810510), Copper (HS 740400), Zinc (HS 790200).

Phosphate includes the following HS 6-digits: 283525 283526 283529 283522 291910 291990 310530 310540 382483 280920 251020 251010 280470

Textile corresponds to the category textiles includes all HS 2-digit codes from 50 to 63.

Annex 7. Evolution of Morocco's imports from IIMV countries, 2012-18 (in million US\$)

A. India

Type	2012			2015			2018		
	Value	Share	YoY 2011-12	Value	Share	YoY 2014-15	Value	Share	YoY 2017-18
01-05 Animal	1,552.3	0.3%	-64.6%	2,137.2	0.5%	-61.7%	7,757.7	1.1%	214.2%
06-15 Vegetable	14,329.2	2.8%	19.5%	22,985.3	5.8%	4.6%	72,704.8	10.3%	123.9%
16-24 Foodstuffs	7,132.0	1.4%	61.0%	3,687.2	0.9%	-41.6%	4,800.3	0.7%	40.4%
25-27 Minerals	52,450.3	10.3%	-67.5%	20,112.5	5.0%	-71.1%	111,009.6	15.8%	31.1%
28-38 Chemicals	64,303.8	12.7%	-14.2%	97,278.9	24.4%	25.2%	114,023.2	16.2%	0.6%
39-40 Plastic / Rubber	21,771.9	4.3%	-26.8%	19,231.7	4.8%	6.2%	43,110.7	6.1%	39.8%
41-43 Hides, Skins	2,477.5	0.5%	-5.3%	3,459.6	0.9%	-25.7%	2,736.1	0.4%	-37.1%
44-49 Wood	822.6	0.2%	99.7%	1,443.7	0.4%	296.3%	1,467.8	0.2%	14.9%
50-63 Textiles, Clothing	144,449.5	28.4%	1.4%	115,170.9	28.9%	-18.4%	155,050.2	22.1%	10.8%
64-67 Footwear	1,100.4	0.2%	1.1%	2,961.5	0.7%	3.0%	3,305.8	0.5%	-0.8%
68-71 Stone / Glass	6,641.6	1.3%	33.4%	7,880.8	2.0%	-2.4%	20,973.3	3.0%	65.8%
72-83 Metals	30,047.4	5.9%	98.9%	19,240.3	4.8%	-49.5%	33,121.5	4.7%	10.7%
84-85 Mach/Elec	90,731.0	17.9%	8.3%	56,589.8	14.2%	-9.9%	94,244.9	13.4%	-12.1%
86-89 Transportation	62,616.4	12.3%	38.0%	16,680.2	4.2%	-61.0%	25,381.6	3.6%	-28.7%
90-97 Miscellaneous	7,319.8	1.4%	14.7%	10,002.4	2.5%	34.4%	13,320.8	1.9%	-12.8%
Total	507,745.6	100.0%		398,862.1	100.0%		703,008.2	100.0%	

B. Indonesia

Type	2012			2015			2018		
	Value	Share	YoY 2011-12	Value	Share	YoY 2014-15	Value	Share	YoY 2017-18
01-05 Animal	274.8	0.2%	43.8%	293.2	0.2%	59.1%	240.4	0.2%	44.8%
06-15 Vegetable	48,631.4	35.8%	25.4%	43,405.1	32.0%	2.4%	39,642.5	37.5%	-23.0%
16-24 Foodstuffs	1,023.1	0.8%	5.3%	945.8	0.7%	65.3%	1,810.5	1.7%	62.1%
25-27 Minerals	-	0.0%	-100.0%	2.7	0.0%	139.4%	61.5	0.1%	689.0%
28-38 Chemicals	2,322.3	1.7%	28.9%	7,997.2	5.9%	-5.5%	6,292.9	5.9%	-31.0%
39-40 Plastic / Rubber	4,521.2	3.3%	9.0%	4,609.9	3.4%	23.1%	4,195.4	4.0%	17.7%
41-43 Hides, Skins	459.8	0.3%	34.1%	673.8	0.5%	-24.3%	451.6	0.4%	-12.9%
44-49 Wood	688.0	0.5%	-28.8%	801.2	0.6%	-31.2%	1,733.6	1.6%	264.7%
50-63 Textiles, Clothing	15,273.9	11.3%	3.9%	27,324.6	20.2%	-19.0%	27,319.8	25.8%	-15.1%
64-67 Footwear	1,944.7	1.4%	90.2%	1,413.1	1.0%	-44.8%	2,295.9	2.2%	20.1%
68-71 Stone / Glass	513.9	0.4%	-38.1%	980.4	0.7%	-8.0%	1,161.1	1.1%	-91.7%
72-83 Metals	36,464.2	26.9%	69.3%	23,828.4	17.6%	7699.7%	422.5	0.4%	92.6%
84-85 Mach/Elec	16,937.5	12.5%	20.0%	18,126.9	13.4%	73.4%	11,779.2	11.1%	1.7%
86-89 Transportation	91.8	0.1%	-91.3%	99.8	0.1%	210.4%	5,386.4	5.1%	111.4%
90-97 Miscellaneous	6,620.1	4.9%	16.3%	4,995.1	3.7%	-18.3%	2,979.3	2.8%	-34.1%
Total	135,766.6	100.0%		135,497.3	100.0%		105,772.7	100.0%	

C. Malaysia

Type	2012			2015			2018		
	Value	Share	YoY 2011-12	Value	Share	YoY 2014-15	Value	Share	YoY 2017-18
01-05 Animal	40.9	0.0%	87.6%	30.4	0.0%	144.5%	130.7	0.1%	108.1%
06-15 Vegetable	26,853.9	29.2%	-15.2%	17,290.6	20.3%	-37.7%	23,698.9	22.9%	-17.4%
16-24 Foodstuffs	705.6	0.8%	-27.9%	607.7	0.7%	-42.9%	1,002.5	1.0%	0.4%
25-27 Minerals	-	0.0%	-100.0%	86.7	0.1%	-65.3%	55.7	0.1%	1792.1%
28-38 Chemicals	2,243.7	2.4%	57.7%	2,627.0	3.1%	65.9%	7,451.7	7.2%	93.9%
39-40 Plastic / Rubber	9,792.8	10.7%	1.9%	12,426.5	14.6%	-16.0%	15,108.6	14.6%	19.1%
41-43 Hides, Skins	146.1	0.2%	198.6%	52.7	0.1%	-68.4%	5.0	0.0%	-87.6%
44-49 Wood	337.0	0.4%	63.7%	260.7	0.3%	57.9%	19.5	0.0%	-35.8%
50-63 Textiles, Clothing	3,442.5	3.7%	-4.2%	1,872.2	2.2%	-25.1%	828.8	0.8%	-33.0%
64-67 Footwear	2,077.0	2.3%	795.7%	141.8	0.2%	-55.7%	100.7	0.1%	78.0%
68-71 Stone / Glass	203.4	0.2%	-0.8%	97.6	0.1%	28.8%	82.6	0.1%	11.2%
72-83 Metals	1,315.4	1.4%	-4.2%	3,520.3	4.1%	1725.6%	358.5	0.3%	-0.2%
84-85 Mach/Elec	35,238.3	38.4%	-35.2%	37,842.0	44.4%	-18.7%	45,490.5	43.9%	2.7%
86-89 Transportation	346.6	0.4%	14.7%	240.7	0.3%	-15.1%	374.7	0.4%	67.8%
90-97 Miscellaneous	9,084.0	9.9%	-36.3%	8,125.0	9.5%	18.4%	8,843.7	8.5%	-14.3%
Total	91,827.2	100.0%		85,221.9	100.0%		103,552.2	100.0%	

D. Vietnam

Type	2012			2015			2018		
	Value	Share	YoY 2011-12	Value	Share	YoY 2014-15	Value	Share	YoY 2017-18
01-05 Animal	3,480.1	2.7%	-14.2%	3,728.2	1.9%	-38.4%	3,410.5	1.4%	4.2%
06-15 Vegetable	22,517.5	17.6%	52.5%	13,502.4	6.9%	-4.8%	28,393.9	11.7%	51.9%
16-24 Foodstuffs	517.4	0.4%	1.4%	724.8	0.4%	65.8%	1,449.8	0.6%	92.5%
25-27 Minerals	60.5	0.0%		-	0.0%		20.5	0.0%	
28-38 Chemicals	1,206.4	0.9%	74.9%	4,497.4	2.3%	38.7%	1,716.5	0.7%	-14.5%
39-40 Plastic / Rubber	2,655.0	2.1%	18.5%	1,271.1	0.7%	-14.3%	1,145.6	0.5%	57.9%
41-43 Hides, Skins	513.4	0.4%	127.7%	1,881.8	1.0%	48.0%	3,234.8	1.3%	-28.0%
44-49 Wood	174.0	0.1%	-5.1%	133.6	0.1%	84.9%	804.0	0.3%	47.0%
50-63 Textiles, Clothing	12,328.9	9.6%	35.7%	15,346.9	7.9%	8.6%	18,796.0	7.7%	-3.0%
64-67 Footwear	7,776.0	6.1%	47.1%	10,565.3	5.4%	-14.3%	17,055.3	7.0%	34.4%
68-71 Stone / Glass	225.9	0.2%	104.2%	124.5	0.1%	12.9%	142.4	0.1%	97.9%
72-83 Metals	6,609.8	5.2%	1415.9%	16,465.4	8.4%	4113.8%	581.7	0.2%	-98.5%
84-85 Mach/Elec	54,371.2	42.4%	359.2%	116,257.4	59.6%	-7.1%	160,647.2	66.0%	18.8%
86-89 Transportation	13,012.9	10.1%	7706.5%	7,345.7	3.8%	61.2%	242.9	0.1%	-25.6%
90-97 Miscellaneous	2,773.3	2.2%	68.4%	3,261.9	1.7%	-19.9%	5,623.0	2.3%	48.2%
Total	128,222.3	100.0%		195,106.4	100.0%		243,264.2	100.0%	

Annex 8. List of PTAs signed by IIMV countries**India**

RTA Name	Coverage	Type	Notification	Notification	Entry into force	Status
ASEAN-India	Goods & Services	FTA & EIA	19-Aug-2010	En. Clause & GATS Art. V	1-Jan-2010	In Force
Chile-India	Goods	PSA	13-Jan-2009	En. Clause	17-Aug-2007	In Force
India-Afghanistan	Goods	PSA	8-Mar-2010	En. Clause	13-May-2003	In Force
India-Bhutan	Goods	FTA	30-Jun-2008	En. Clause	29-Jul-2006	In Force
India-Japan	Goods & Services	FTA & EIA	14-Sep-2011	GATT Art. XXIV & GATS Art. V	1-Aug-2011	In Force
India-Malaysia	Goods & Services	FTA & EIA	6-Sep-2011	En. Clause & GATS Art. V	1-Jul-2011	In Force
India-Nepal	Goods	PSA	2-Aug-2010	En. Clause	27-Oct-2009	In Force
India-Singapore	Goods & Services	FTA & EIA	3-May-2007	GATT Art. XXIV & GATS Art. V	1-Aug-2005	In Force
India-Sri Lanka	Goods	FTA	17-Jun-2002	En. Clause	1-Mar-2000	In Force
India-Thailand	Goods	PSA	18-Jun-2017	En. Clause	1-Sep-2004	In Force
Korea, Republic of-India	Goods & Services	FTA & EIA	1-Jul-2010	GATT Art. XXIV En. Clause & GATS Art. V	1-Jan-2010	In Force
MERCOSUR-India	Goods	PSA	23-Feb-2010	En. Clause	1-Jun-2009	In Force
EFTA-India	Goods & Services	EIA				Neg.

EU-India	Goods & Services					Neg.
India-Indonesia (extension of ASEAN-India)						
India-Thailand (CECA)	Goods & Services					Neg.
India-Sri Lanka (CPA)	Goods & Services					Neg.
India-SACU	Goods					Neg.

Indonesia

RTA Name	Coverage	Type	Notification	Notification	Entry into force	Status
Chile-Indonesia	Goods	FTA	1-Apr-2020	GATT Art. XXIV	10-Aug-2019	In Force
Pakistan-Indonesia	Goods	FTA	12-Nov-2019	En. Clause	1-Sep-2013	In Force
Japan-Indonesia	Goods & Services	EIA	27-Jun-2008	GATT Art. XXIV & GATS Art. V	1-Jul-2008	In Force
EU-Indonesia						Neg.
EFTA-Indonesia CPA	Goods & Services	EIA			Signed 16-Sep-2018	Ratification

Malaysia

RTA Name	Coverage	Type	Notification	Notification	Entry into force	Status
Australia-Malaysia	Goods & Services	FTA	13-May-2013	GATT Art. XXIV GATS Art. V	1-Jan-2013	In Force
Chile-Malaysia	Goods	FTA	12-Feb-2013	GATT Art. XXIV	25-Feb-2012	In Force
India-Malaysia	Goods & Services	FTA	6-Sep-2011	En. Clause & GATS Art. V	1-Jul-2011	In Force
Japan-Malaysia	Goods & Services	FTA	12-Jul-2006	GATT Art. XXIV & GATS Art. V	13-Jul-2006	In Force
New Zealand-Malaysia	Goods & Services	FTA	7-Feb-2012	GATT Art. XXIV & GATS Art. V	1-Aug-2010	In Force
Pakistan-Malaysia	Goods & Services	FTA	19-Feb-2008	En. Clause & GATS Art. V	1-Jan-2008	In Force
Global System of Trade Preferences	Goods	PSA	25-Sep-1989	En. Clause	19-Apr-1989	In Force

Turkey-Malaysia	Goods	FTA	20-Feb-2017	GATT Art. XXIV	1-Aug-2015	In Force
CPTPP	Goods & Services	EIA			signed 8-Mar-2018	Ratification
EFTA-Malaysia	Goods & Services	EIA				Neg.

Vietnam

RTA Name	Coverage	Type	Notification	Notification	Entry into force	Status
Chile-Viet Nam	Goods	FTA	12-May-2015	GATT Art. XXIV	1-Jan-2014	In Force
EU-Viet Nam	Goods & Services	EIA	13-Jul-2020	GATT Art. XXIV & GATS Art. V	1-Aug-2020	In Force
EUAU-Viet Nam	Goods & Services	EIA	4-May-2017	GATT Art. XXIV & GATS Art. V	5-Oct-2016	In Force
Japan-Viet Nam	Goods & Services	EIA	1-Oct-2009	GATT Art. XXIV & GATS Art. V	1-Oct-2009	In Force
Korea-Viet Nam	Goods & Services	EIA	2-Mar-2016	GATT Art. XXIV & GATS Art. V	20-Dec-2015	In Force
CPTPP	Goods & Services	EIA	pending	pending	14-Jan-2019	In force
EFTA-Viet Nam	Goods & Services	EIA				Neg.

ASEAN (Indonesia, Malaysia, Vietnam)

RTA Name	Coverage	Type	Notification	Notification	Entry into force	Status
ASEAN-India	Goods & Services	FTA	19-Aug-2010 20-Aug-2015	En. Clause & GATS Art. V	1-Jan-2010 1-Jul 2015	In Force
ASEAN-Australia-New Zealand	Goods & Services	FTA	8-Apr-10	GATT Art. XXIV & GATS Art. V	1-Jan-10	In Force
ASEAN-India	Goods & Services	FTA	19-Aug-2010 20-Aug-2015	En. Clause & GATS Art. V	1-Jan-2010 1-Jul 2015	In Force
ASEAN-Japan	Goods	FTA	23-Nov-09	GATT Art. XXIV	1-Dec-08	In Force

ASEAN-Rep. Korea	Goods & Services	FTA	8-Jul-10	GATT Art. XXIV En. Clause & GATS Art. V	24-Aug-2006 21-Nov-2008	In Force
ASEAN Free Trade Area (AFTA)	Goods	FTA	30-Oct-92	En. Clause	1-Jan-93	In Force
RCEP					signed 15- Nov-2020	Not yet

Source: WTO Regional Trade Agreements Database and authors

Annex 9. List of PTAs signed by Morocco

RTA Name	Coverage	Type	Date of notification	Notification	Date of entry into force	Status
Agadir Agreement	Goods	FTA	22-Feb-2016	En. Clause	27-Mar-2007	In Force
EFTA – Morocco	Goods	FTA	20-Jan-2000	GATT Art. XXIV	1-Dec-1999	In Force
EU – Morocco	Goods	FTA	13-Oct-2000	GATT Art. XXIV	1-Mar-2000	In Force
Global System of Trade Preferences	Goods	PSA	25-Sep-1989	En. Clause	19-Apr-1989	In Force
Morocco - United Arab Emirates	Goods	FTA	19-Jun-2019	En. Clause	9-Jul-2003	In Force
Pan-Arab Free Trade Area (PAFTA)	Goods	FTA	3-Oct-2006	GATT Art. XXIV	1-Jan-1998	In Force
Turkey – Morocco	Goods	FTA	10-Feb-2006	GATT Art. XXIV	1-Jan-2006	In Force
United States - Morocco	Goods & Services	FTA & EIA	30-Dec-2005	GATT Art. XXIV & GATS Art. V	1-Jan-2006	In Force
AfCFTA	Goods	FTA			Signed 21- Mar-2018	Ratification

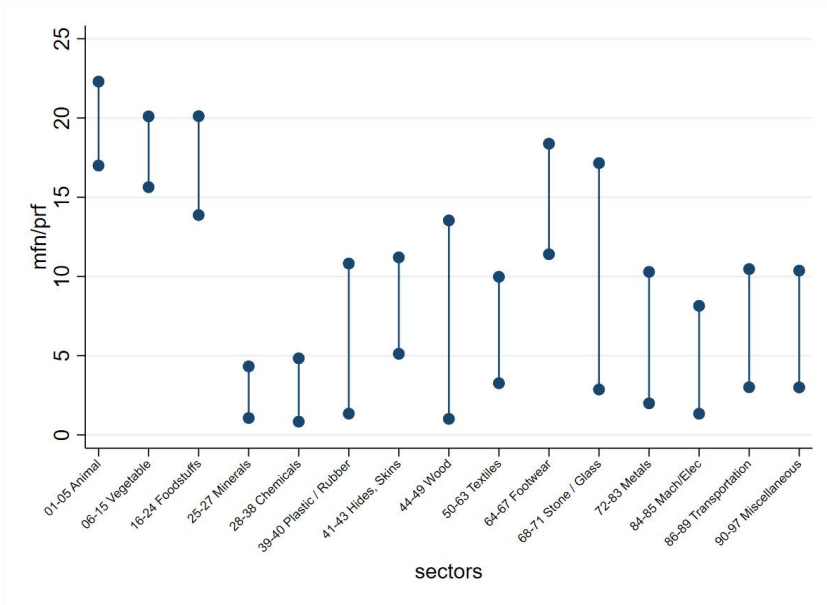
Source: WTO PTA database.

Annex 10. NTMs for IIMV countries

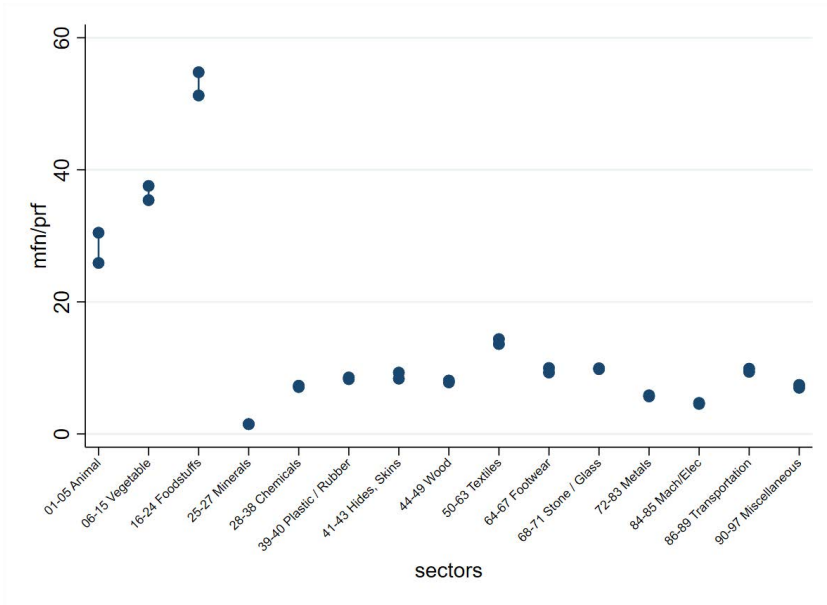
	All members	Bilateral to Morocco
India	3,663	33
Export-related measures	407	4
Other measures	23	
Pre-shipment inspection	43	
Price control measures	42	1
Quantity control measures	201	1
Sanitary and Phytosanitary	1,466	26
Technical Barriers to Trade	1,481	1
Indonesia	944	17
Export-related measures	128	
Other measures	12	
Pre-shipment inspection	52	1
Price control measures	18	
Quantity control measures	80	1
Sanitary and Phytosanitary	229	9
Technical Barriers to Trade	425	6
Malaysia	835	20
Export-related measures	128	6
Pre-shipment inspection	5	
Price control measures	28	1
Quantity control measures	43	2
Sanitary and Phytosanitary	265	7
Technical Barriers to Trade	366	4
Viet Nam	687	7
Contingent trade protective measures	1	
Export-related measures	145	2
Other measures	16	1
Pre-shipment inspection	7	
Price control measures	19	
Quantity control measures	72	2
Sanitary and Phytosanitary	114	
Technical Barriers to Trade	313	2
Grand Total	6,129	77

Source: UNCTAD TRAINS, Authors' calculations.

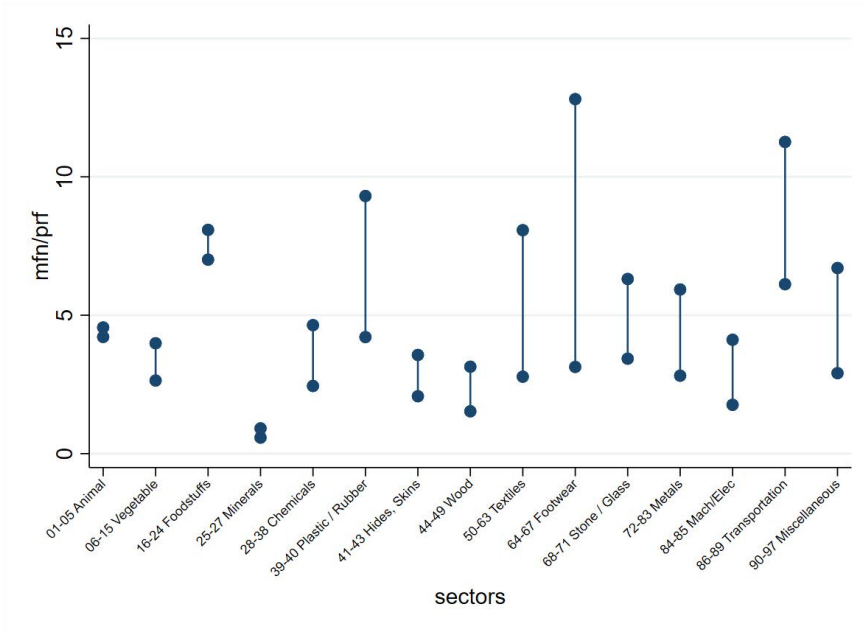
Annex 11. Morocco's trade preferences



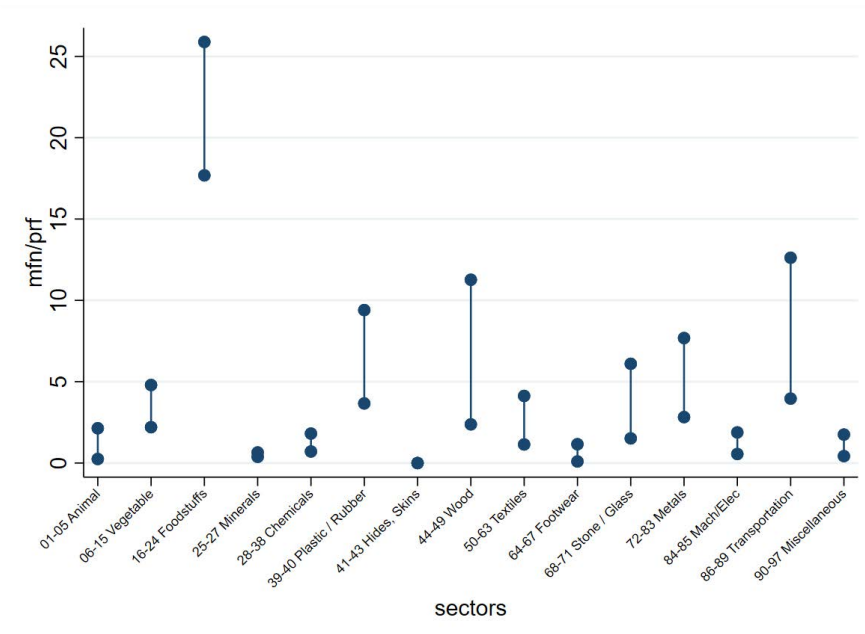
Annex 12. India's trade preferences



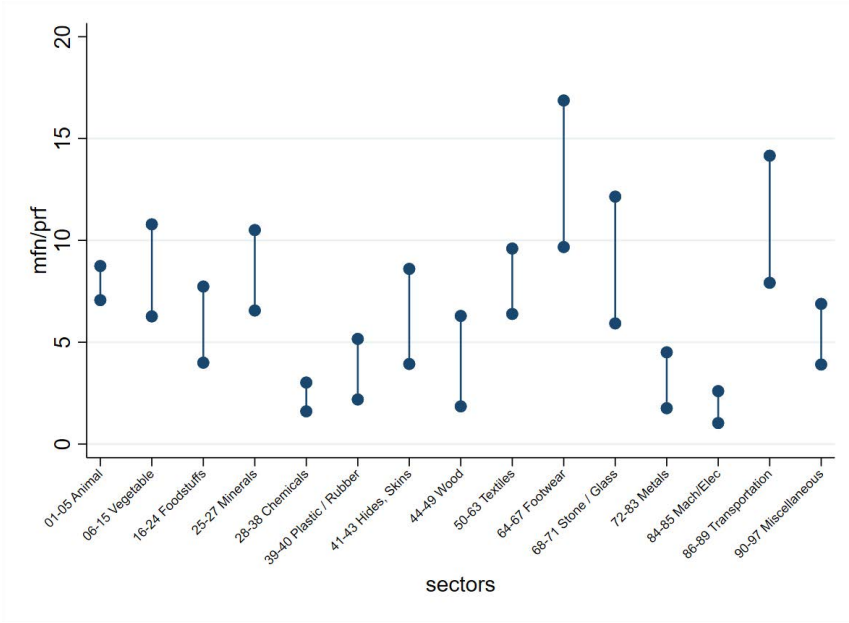
Annex 13. Indonesia's trade preferences



Annex 14. Malaysia's trade preferences



Annex 15. Vietnam's trade preferences



Annex 16. Summary

A. Summary of exports

Indicator	India	Indonesia	Malaysia	Vietnam
Share of total exports	4.3%	0.3%	<0.1%	0.12%
Share of IIVM exports	90%	6%	2%	3%
Value of total exports	1,323 million US\$	91 million US\$	23 million US\$	37 million US\$

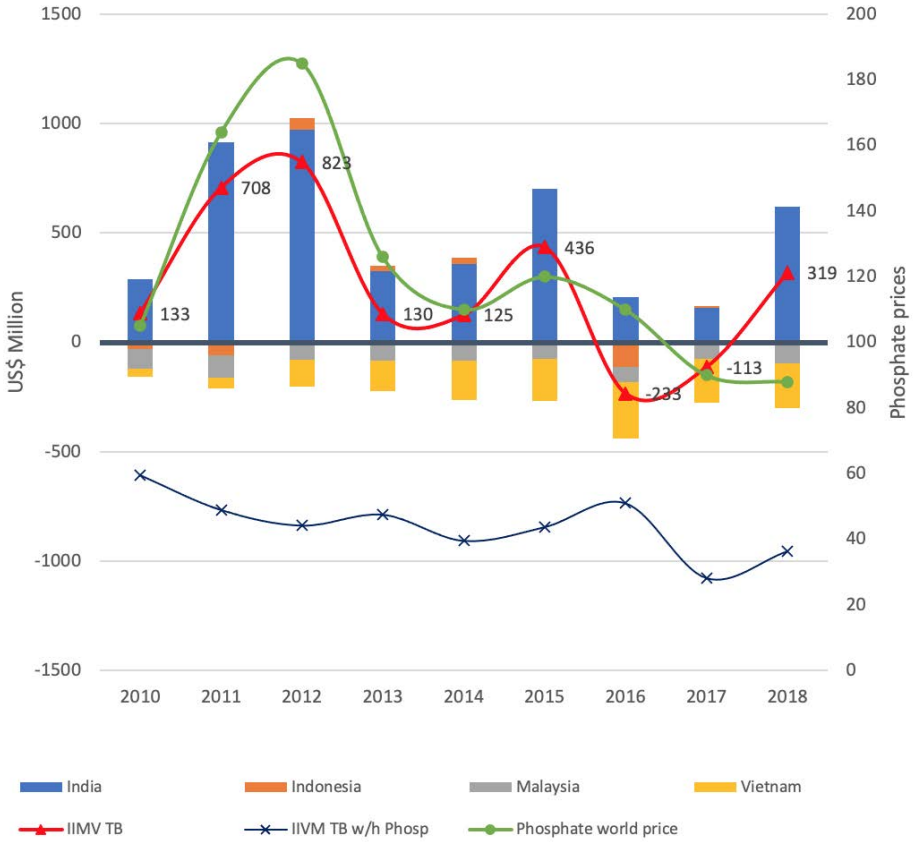
Country	Traditional exports	New Exports
India	<ul style="list-style-type: none"> Phosphate (93.9%; 1,243M) Metals (2.8%; 37M) Other 344 prod. (2.4%; 32M) 	<ul style="list-style-type: none"> Fish feeding (0.5%; 6.6M) Aviation (0.4%; 4.8M)
Indonesia	<ul style="list-style-type: none"> Phosphate (73.5%: 66.8 US\$ M) Textile (23.0%: 20.9 US\$ M) Other 131 prod. (1.7%: 1.43M) 	<ul style="list-style-type: none"> Elec. circuits (1.2%; 1.1M) Aviation (0.6%: 0.58M)
Malaysia	<ul style="list-style-type: none"> Elec/Mach (29.7%: 6.9M) Textile (18.4%; 4.24M) Aluminium (8.4%; 1.9M) Other 60 prod. (11.7%: 2.7M) 	<ul style="list-style-type: none"> Frozen sardines (22.9%: 5.2M) Olive oil (6.1%; 1.4M) Aircraft parts (2.8%; 0.66M)
Vietnam	<ul style="list-style-type: none"> Phosphate (51.6%: 19.2M) Textiles (24.3%; 9.1M) Elec. circuits (4.0%; 1.5M) Other 73 prod. (9.1%; 3.4M) 	<ul style="list-style-type: none"> Fish feeding (6.8%; 2.5M) Metals (2.9%; 1.1 M) Engines/motors (1.4%; 0.5M)

B. Summary of imports

Indicator	India	Indonesia	Malaysia	Vietnam
Share of total exports	1.4%	0.2%	<0.2%	0.5%
Share of IIVM exports	61%	9%	9%	21.0%
Value of total exports	703 million US\$	106 million US\$	104 million US\$	243 million US\$

Country	Traditional exports	New Exports
India	<ul style="list-style-type: none"> Textiles (22.1%; 155M) Petroleum (15.8%; 106M) Elec/mach (13.4%; 94.2M) Vegetables (11.4%; 80.4M) Other 1,071 prod. (38.2%; 267M) 	<ul style="list-style-type: none"> Animal (3%; 7.7M) Stone/glass (1.1%; 21.1M)
Indonesia	<ul style="list-style-type: none"> Coffee (20.1%; 21.2M) Textiles (25.8%; 27.3M) Vegetables (17.3%; 16.2M) Elec/mach (11.1%; 11.8M) Other (25.7%; 27M) 	<ul style="list-style-type: none"> None identified
Malaysia	<ul style="list-style-type: none"> Palm oil (18.4%; 19.1M) Transmission (30.3%; 31.3M) Other mach/Elec (13.7%; 14.2M) Vegetables (4.5%; 4.7M) Plastic/Rubber (14.5%; 15.1M) Others (18.6%; 19.2M) 	<ul style="list-style-type: none"> None identified
Vietnam	<ul style="list-style-type: none"> Transmission apparatus (55.1%; 143M) Coffee (8.2%; 20M) Elec/mach (10.9%; 17.5M) Vegetables (3.5%; 8.4M) Textile (7.7%; 18.9M) Footwear (7.0%; 17.0M) Other (7.6%; 18.4M) 	<ul style="list-style-type: none"> None identified

Annex 17. Morocco's trade surplus with IIMV countries is driven by phosphate prices and phosphate exports to India



Source: WITS import data, Author's calculations. Phosphate prices from the WB commodity price index.

PART III

MOROCCAN TRADE POLICY: INSIGHTS FROM KOREA

10

ENHANCING GLOBAL VALUE CHAIN RESILIENCE: KOREAN INSIGHTS

Inkyo Cheong¹

I. Introduction

The Republic of Korea (in short Korea) has achieved sustained economic growth through an export-oriented strategy. Korea's trade policy has been to keep the country open for business. This has fueled the internationalization of its companies. Most leading Korean firms are embedded into Global Value Chains (GVCs), which export and import simultaneously. Imports of foreign intermediate goods contribute to the enhancement of firm-level productivity. As the new trade theory suggests, internationalized companies are more productive than those settling for the domestic market (Melitz, 2003; Melitz and Redding, 2014). The policy of restraining imports while trying to increase exports is contradictory and negatively affects exports by deteriorating the competitiveness of companies. In Korea, as in many advanced countries, global companies that export and import at the same time have led technological innovation (Heo, 2019).

In the late 1990s, Korea's trade policy was expanded to promote engagement in Preferential Trade Agreements (PTAs), in addition to the multilateral trading system established by the World Trade Organization (Cheong, 2003). Over 10 years, Korea's performance in pursuing PTAs was remarkable. The share of

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Korea's trade conducted with PTA partner countries expanded to 80% of the country's total trade. This naturally contributed to the expansion and deepening of Korean companies' GVC operations. Based on a PTA network with global reach, Korean companies can design and pursue optimal structures for cross-border production tasks. Preferential tariffs under PTAs, logistics costs, and technical requirements (quality, technical standards, etc.) were properly considered. Furthermore, companies decide on domestic and foreign investment and outsourcing by considering the PTA networks of third countries, in addition to Korea's own PTA network, as Korean trade agencies such as Korea Trade-Investment Promotion Agency (KOTRA, 2015) have underlined.

Beyond providing an institutional environment through the many PTAs and other channels, so that companies can make optimal decisions, the Korean government has not directed specific policy attention to the supply-chain needs of its companies. Korea, the world's sixth largest exporter in 2019, has a significant domestic manufacturing base², and relies on overseas production plants for the purpose of GVC optimization. Even factories operating overseas use a lot of domestically produced intermediate goods, and domestic production activities also use imported intermediate goods. Vertical specialization (Hummels et al, 2001) and GVCs are optimized based on the international competitiveness of companies. Except in exceptional cases linked to national security concerns³, Korea has traditionally refrained from requiring its companies to achieve specific levels of domestic value added.

However, in the last few years, there have been three instances when Korea's policy stance on GVCs came into play. First, a support scheme for Korean companies reallocating from China was needed. China is Korea's largest trading partner, and at one time there were over 30,000 Korean companies operating in China. However, increasing production costs in China forced many companies to consider alternative locations, creating political pressure to support their reshoring efforts. With rising tensions between the U.S. and China, the pressure to leave China has further increased (Oxford Business Group, 2020).

A second major development with GVC implications arises from Korea's response to export restrictions imposed by Japan in July 2019. For the production of high-tech products such as semiconductors, Korea has long imported and used Japanese-sourced inputs. Mounting bilateral trade tensions prompted

2. Although Korea has no global pharmaceutical brand, Korea has a solid foundation for the pharmaceutical industry. In particular, as a result of investing heavily in biopharmaceuticals over the past 10 years, it was possible to develop a COVID-19 test kit in two weeks immediately after the COVID-19 outbreak and mass produce it at scale. Therefore, in the first half of 2021, Korea became the country that performed the most COVID-19 tests in the world, and was able to export test reagents.

3. For facilities related to national security, such as power plants, domestic procurement conditions are applied.

Korea to pursue a strategy aimed at substituting Japanese imports. This is the first case since the mid-1990s, when the WTO was established, in which Korea has promoted localization instead of imported products.

The third countermeasure is Korea's response to GVC reorganization pressures generated by the COVID-19 pandemic (World Bank, 2020a; IMF, 2020ab; UNCTAD, 2020; World Economic Forum, 2020; Brookings Institute, 2020; Baldwin and Tomiura, 2020). In order to turn the COVID-19 crisis into an opportunity to foster high-tech industries, a 'Digital New Deal' policy is being promoted.

This chapter assesses Korea's policy response to evolving GVC dynamics in recent years. Section 2 examines the importance of the industrialization strategy aimed at entering overseas markets in the process of Korea's economic development, and further analyzes the economic and social status of Korea. Section 3 examines Korea's reshoring policy just before the pandemic, and Korea's supply-chain improvement strategy in response to Japanese export restrictions. Section 4 examines Korea's post-COVID-19 GVC strategy as a policy to foster the parts, materials, and equipment industry, and the Digital New Deal policy that is being promoted as a countermeasure to revitalize the economy. The section explores how the digital policy leads to Korean companies' domestic value chain reinforcement. Section 5 offers concluding remarks. Our analysis suggests that Korea's strategy to turn the COVID-19 crisis into an opportunity offers meaningful lessons for other countries' GVC strategies.

II. Economic Development of Korea⁴

There may be critical views on Korea's compressed economic growth (Seth, 2003), but few could deny that country's economic success has been anything but remarkable, turning Korea into a global leader in technological innovation, and offering valuable lessons for many developing countries (World Bank, 2020b). To help readers better understand the Korean economy, this section briefly sketches the process of economic development in Korea, and situates the country's international status in matters of social development.

1. The Korean Economic Development Process

Korea has received international attention in many ways. The World Bank (1993) depicted the economic growth trajectories of Hong Kong, Singapore,

4. Some of the content is an extension of Cheong (2020).

Korea, and Taiwan as a ‘miracle’. With the end of the Second World War in 1945, Korea became independent from Japan, but was ranked among the world’s poorest nations, unable to survive without the support of Western countries such as the United States. Korea remained one of the world’s poorest states throughout the 1950s. By 1960, its per-capita income was about the same as Haiti (Seth, 2017). However, within half a century, Korea developed into the eleventh largest economy and seventh largest trading nation in the world. Former U.S. President Obama said that “When I came here as a U.S. senator, I pointed out that Korea’s economy was the same as Kenya’s when I was born, and then was 40 times larger than Kenya’s. Think about that”⁵. Among the countries to become independent since the Second World War, few have registered as much progress in economic, social development and democratic terms as has Korea.

Table 1. Trends in Per-Capita Income: Korea and Kenya, 1961-2019

	1961	1962	1963	1964	1965	1970	1980	1990	2000	2010	2019
Korea	94	100	103	108	104	279	1,715	6,610	12,257	23,087	31,762
Kenya	93	106	146	123	108	142	443	361	397	952	1,817

Source: World Bank Group, World Development Indicators (2020).

In the 1960s, a state-led economic development plan was established, paving the way for industrialization. The secret of success was to turn to overseas markets early to overcome the limitations of the domestic market. Korea, which started as an agricultural country, became the eleventh largest economy in the world in terms of gross domestic product (GDP) in 2016, with an open and export-oriented trade policy (Santacreu and Zhu, 2018). General Agreement on Tariffs and Trade (GATT) membership provided a favorable early export market environment for Korea at a time of crippling poverty. The WTO, launched in 1995, has provided Korea, which has developed as an industrial country, with the means to globalize its economic system while complying with the international trade order, and with the opportunity to deepen its presence in overseas markets.

5. Remarks by President Obama to the Kenyan People (Nairobi, Kenya. July 26, 2015), available at https://www.youtube.com/watch?v=x_Kw9YnNXJk&ct=137s.

Table 2. Korea's Economic Development (1961 vs 2019)

	Unit	GDP per capita	Goods Exports (current US\$)	Foreign Reserves
1961	\$	106	6 million	0.17 billion
	ranking	66	104	45
2019	\$	31,762	542 billion	407.5 billion
	ranking	11	7	9

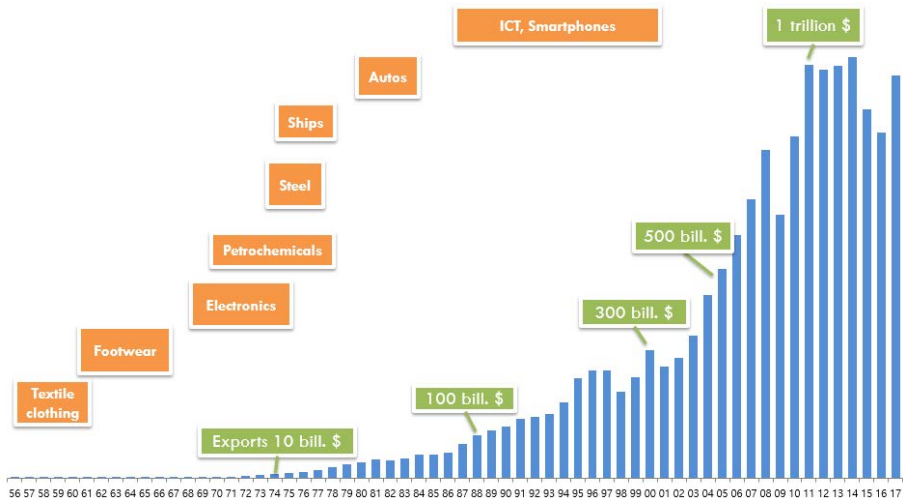
Source: IMF(2020), IMF DataMapper, World Bank Group, World Development Indicators, various years.

When a global PTA fever broke out in the late 1990s, Korea decided to embrace regionalism and started to engage in PTA negotiations in late 1998. The initial PTA policy was sluggish because of domestic opposition to the trade opening policy, but Korea signed bilateral agreements with the United States (implemented in 2012), EU (2011), China (2015), ASEAN (2007), Turkey (2013), India (2010), and others⁶. As a result, Korea's PTA network has become one of the world's broadest, alongside those of Chile, Mexico, Costa Rica, and Singapore. As of 2020, Korea had concluded PTAs with 56 partner countries⁷, and more than 80% of its trade today is conducted along the preferential lines.

6. In addition to the PTAs mentioned, Korea implemented PTAs with Chile (2004), Singapore (2005), the European Free Trade Area (2008), Peru (2012), Canada (2015), Australia (2015), New Zealand (2016), Vietnam (2016), Colombia (2016), and six Central American countries (2018), including Costa Rica.

7. Here, the EU is counted as 27 following Brexit, but the UK was counted individually with the UK-Korea FTA.

Figure 1. Trends in Korea's Trade Volume and Major Export Items



Source: Elaborated based on Lee (2014).

In the 1950s, Korea was a typical agrarian country, but agricultural products did not support the domestic population. To fight poverty, the government turned to exports. During the industrialization phase of the 1960s, textiles, fertilizers, cement, etc., were produced, and in 1964, exports of \$0.1 billion were celebrated. Korea fostered high-value export industries in order to develop the national economy and address structural trade deficits. With the production and export of labor-intensive goods, the foundation was laid to some extent for new industrial development. In the 1970s, the government placed policy emphasis on the development of heavy manufacturing and chemical products, built large-scale petrochemical plants, and invested heavily in industries including steel, shipbuilding, and electronics. A large portion of domestically produced goods was exported overseas, and exports reached \$10 billion by 1977. The expansion of exports was the biggest policy task of economic policymakers, and finance was provided so that large corporations could lead the production of final goods for export. The government further encouraged small and medium-sized enterprises (SMEs) to form vertically-affiliated subcontracting relationships with large companies, allowing them to produce parts and intermediate goods required by the latter.

The value chain formed in the 1970s between large Korean corporations and domestic SMEs has continued until now. After the 1990s, large corporations in Korea started sourcing globally due to the spread of GVCs, but the proportion

of procurement from domestic SMEs remained very high. Although the share varies by sector, in the case of the Korean automobile industry, the domestic procurement ratio approaches 80%, according to a recent internal (confidential) report by the Korea Automobile Manufacturers Association.

In the 1980s, Korea started to foster the precision machinery, automobile, and electronics industries. The country recorded its first trade surplus in 1982. In the 1990s, computers, semiconductors, and information and communications technology (ICT) industries were added to the Korean export mix. After the 2000s, the proportion of exports from high-tech industries such as smartphones increased sharply, along with high value-added services exports. Korea's trade volume exceeded \$500 billion in 2005 and reached \$1 trillion for the first time in 2011. As Korea's high level of domestic savings funded investment in productive sectors, global companies including Samsung, Hyundai, and SK grew rapidly, allowing the scale of exports to grow rapidly in parallel.

2. R&D Expenditure and Industrial Development

As a late industrializer, Korea has focused centrally on research and development (R&D) investment in recent years, to overcome disadvantages in science and technology. In the past, national capital accumulation was poor and investment in basic technology was limited, but as the economy grew rapidly, investment in R&D has increased significantly. The OECD's Main Science and Technology Indicators (MSTI) show that Korea's ratio of R&D expenditure to GDP is among the highest in the world. This ratio stood at 4.53% at the end of 2018, nearly twice the OECD average (2.38%), significantly higher than that in the EU (2.03%), the U.S. (2.83%), and Japan (3.28%), and second only to Israel (4.94%; Table 3)⁸.

8. For details, refer to https://stats.oecd.org/Index.aspx?DataSetCode=MSTI_PUB.

Table 3. R&D Investment to GDP Ratios, Selected Economies, 2015-19 (%)

Global ranking	Country	2015	2016	2017	2018
1	Israel	4.27	4.51	4.82	4.94
2	Korea	3.98	3.99	4.29	4.53
3	Taiwan	3.05	3.15	3.28	3.46
4	Japan	3.28	3.16	3.21	3.28
5	Sweden	3.22	3.25	3.36	3.32
EU Average		1.95	1.94	1.98	2.03
OECD Average		2.31	2.30	2.34	2.38

Source: OECD Main Science and Technology Indicators.

In addition to being the highest in the world, Korea's R&D-to-GDP ratio far exceeded that of Sweden, the EU country with the highest ratio (3.32%). As little as 10 years ago, Korea's ratio of R&D expenditure to GDP equaled that of the EU. However, the need to expand investment in science and technology was raised in Korea, and Korea's investment in high-tech industries including semiconductors, information and communication devices, and biotechnology, increased rapidly. For instance, with the investment accumulated in the biopharmaceutical industry to date, Korea was able to produce the level of medical goods necessary to overcome the COVID-19 pandemic, while exporting a large share of domestic production.

Thanks to sustained large investments, Korea has gained international competitiveness in advanced ICT sectors, including semiconductors and smartphones. In the case of non-memory and system semiconductors, such as CPUs (central processing units), it lags advanced countries such as the United States. In the case of DRAM memory semiconductors, Korean companies have a dominant position, with Samsung and SK Hynix holding a combined 70% share of the global market. With Huawei suffering from the rising trade and technology tensions between the United States and China, the global market shares of leading smartphone manufacturers has changed. As of 2019, Samsung Electronics, which held 19% of the global market, was the number one smartphone maker in the world, followed by Huawei and Apple.

The World Economic Forum (WEF) comprehensively evaluates the global competitiveness performance of 141 countries and publishes its Global

Competitiveness Index annually. Switzerland, the United States, Singapore, the Netherlands, Germany, and Japan have always ranked at the top, while Korea's rank fell from 22 in 2010 to 26 in 2015 and remained there until 2016. It then rose to 17 in 2017 and 15 in 2018, reaching 13 in 2019, its highest level ever.

Table 4. Global Competitiveness Index (GCI) Rankings, 2015-19

Global ranking	2015	2016	2017	2018	2019
1	Switzerland	Switzerland	Switzerland	United States	Singapore
2	Singapore	Singapore	United States	Singapore	United States
3	United States	United States	Singapore	Germany	Hong Kong
4	Germany	Netherlands	Netherlands	Switzerland	Netherlands
5	Netherlands	Germany	Germany	Japan	Switzerland
6	Japan	Sweden	Hong Kong	Netherlands	Japan
Ranking of Korea	26	26	26	15	13

Source: World Economic Forum (<https://www.weforum.org>).

3. Human Development Index (HDI)

It is very difficult to assess comprehensively the level of development of a country. This is because each country faces special circumstances, and national development strategies differ accordingly. The United Nations Development Program's (UNDP) Human Development Index (HDI), published each year, attempts to offer a synthetic view of key determinants of countries' quality of life. Korea's Human Development Index ranking was 37 in 1998, 31 in 2000, 26 in 2006, and 22 in 2019, a trend showing continuous improvements in overall development levels. Korea's rise in the ranking owes chiefly to increased fiscal capacity resulting from steadily rising incomes. Western countries are mainly in the top ranks of the HDI, with Norway, Iceland, Switzerland, and Germany topping the rankings in 2019. In Asia, Hong Kong is tied for fourth place with Germany, while Japan ranks 19 and China ranks 85.

The HDI offers insights into the economic and social development status of member countries. For its part, the Social Development Investigation

Organization defines social progress as the ability of societies to meet the basic human needs of their citizens. The organization aims to promote environments in which citizens and communities can improve and maintain their quality-of-life levels. Instead of focusing on traditional metrics such as income and investment, it evaluates social progress using 51 social and environmental indicators including basic human needs, the basis of wellbeing, and opportunities.

Korea scores highly once more on the satisfaction of basic human needs, personal safety, quality of healthcare, etc. On these metrics, Korea has improved steadily over the years. For instance, the quality of Korea's medical system played a big role in the country's ability to contain the COVID-19 crisis, and in becoming a best practice example of quarantine practices. On the other hand, Korea scores relatively poorly on indicators including wellbeing and corruption, where urgent improvements are widely seen as necessary.

III. Korea's Domestic Value Chain Expansion Policy Before the Pandemic

This section addresses two policy initiatives that Korea took in regard to domestic value chain management before the COVID-19 outbreak. The first initiative concerns the Korean-style reshoring policy found in the 'Act on Support for Companies' Returning to Korea' (in short, the U-Turn Support Act). The section then analyzes the supply chain substitution policy promoted by Korea in response to recent Japanese export restrictions.

1. Reshoring (U-turn) Policy

Many Korean SMEs established production facilities in China to take advantage of cheap and abundant labor. Around 2012, wage hikes and new Chinese regulations dented the competitiveness of those firms. The Korean U-Turn Support Act was enacted to support Korean companies liquidating their businesses in China. In the process of enacting this law, a consensus was formed that only companies that withdrew from China and engaged in production activities in Korea should receive state support. Therefore, the requirements for the support were strict.

Korea decided to provide tax preferences, including corporate tax rebates for five to seven years, for U-turn manufacturing companies under certain conditions, and to provide tariff reductions (up to 100%) when establishing

job-creating new facilities. In the case of the liquidation or closing of overseas business sites and new installations in Korea, corporate taxes are waived by 100% for the first five years and by 50% for the following two years. For firms that reduce their overseas business operations (i.e. those that do not fully exit the Chinese market) and expand domestically, the policy provides for 100% corporate tax exemption for the first three years and a 50% tax exemption over the following two years⁹. Korea also provides plant site advantages¹⁰ to U-turn companies that meet certain requirements, regardless of the size of the company¹¹. In addition, even when only a part of overseas business (25% or more) is reduced, and new domestic business facilities are established, those companies are recognized and supported as U-turn companies. Such support was generally regarded as generous. However, Korean firms engaging in such reshoring have faced challenges in operating on the same scale as they did in China.

Korea pursued a strict approach to reshoring, by announcing that Korean companies “should return to Korea”. In Korea, reshoring means that a company that has previously moved its factory abroad builds a new domestic production base in Korea. U-turn refers to the complete withdrawal of a company that has gone overseas and the establishment of an alternative domestic factory. The purpose of the U-turn was to attract domestic production activities from China. Only 71 companies have returned to Korea since 2014, when the law came into force. In most cases, production facilities were not re-shored but rather moved to a cheaper third country, even as managerial control was repatriated. While firms doing so applied for U-turn support, only a few were deemed to meet the program’s requirements. Supporting reshoring companies under strict conditions was inevitable, because companies that can no longer afford China’s labor costs are unlikely to afford Korea’s even higher labor costs. In fact, there is no country that provides national financial support for companies relocating factories from China to a third country, rather than to their home country.

Companies have raised objections against the law by saying that it is difficult to meet its requirements. Accordingly, the Korean government revised the U-turn law at the end of 2019 but introduced only minor changes. The business categories now eligible for U-turn business support have expanded from manufacturing to services. In the case of the service industry, the requirement

9. However, in the case of reducing overseas business sites and returning to local areas, support is provided at a level equivalent to the cost of liquidation or transfer of overseas business sites.

10. For U-turn companies, the Korean government sets a low fee for use when moving into a factory site owned by the government and provides funding for facility investment. The facility subsidies per company are up to \$869,000.

11. As an additional requirement, the number of permanent employees at the workplace must be 20 or more and must pass the subsidy support feasibility assessment.

for hiring workers was dropped. The requirements for manufacturing firms have remained the same. A few benefits, including preferential land use, rent reduction, non-competitive contracts, and strengthening of KOTRA's support for U-turn companies, were added, but these were unlikely to be a big incentive for U-turn companies.

As the importance of securing a stable supply chain in key industries was emphasized after the outbreak of COVID19 pandemic, the Korean government seriously discussed with business organizations and industry groups measures to improve the effectiveness of the U-turn law. Companies pointed to the need to ease requirements for U-turn support, securing domestic orders by companies in demand, expanding financial loans, extending more incentives such as subsidies, easing regulations (e.g. environmental rules), and providing consulting services.

The revised law allows U-turn companies that increase their production facilities in Korea to receive corporate tax reduction benefits¹², provides priority allocation of smart factory support funds, additional points for 'industrial technology R&D projects', and a total of \$3.91 billion in support for facility investment. In addition, an exception to the immigration visa system was allowed, so that foreign workers who had previously worked overseas could be hired in Korea. Support was further extended to companies that returned to Korea by promoting supply-chain stabilization through a packaged support system¹³. Nevertheless, only 6% of companies operating in China appear to be willing to make a U-turn, and the efficiency of Korea's U-turn policy is not generally regarded as very high¹⁴.

The most significant part of this revision is the priority support to U-turn companies running smart factories. This is because it can induce innovation in the production process, while reducing the burden caused by high labor costs in Korea. In addition, the decision to give additional points to U-turn companies in the evaluation of 'industrial technology R&D projects' provided by the Korean government is also a significant incentive for companies, because technological innovation can be effectively achieved through participation in government-supported R&D, and can be a decisive help in helping companies upgrade into high-tech firms.

12. In the existing regulations, corporate tax reduction benefits were provided only to U-turn companies establishing new business sites in Korea.

13. For example, a cooperative U-turn linking U-turn companies and domestic companies was activated. For example, LG Electronics, a conglomerate, and Dong-gu Corporation, which was qualified as a U-turn company, agreed on a U-turn support plan for partnership for the first time. LG Electronics promised to order a certain amount from Dong-gu and planned to provide consulting services necessary for the operation of domestic factories.

14. Results of a survey conducted by the Korean Chamber of Commerce and Industry based on a sample of 308 member companies in June 2020.

2. Korea's Response to Japanese Export Restrictions

When the Japanese government announced on July 4, 2019, that it would regulate (restrict) exports of three key industrial inputs to Korea, Korean companies and citizens realized for the first time the importance of GVC stability. Hydrogen fluoride, photoresist, and fluorine polyimide are produced only by Japanese companies, which have an overwhelming share in global trade. These materials are essential for the production of semiconductors and displays in Korea. On August 2, 2019, Japan excluded Korea from its white list (list of countries allowed for simplified customs clearance), greatly expanding the items subject to export regulations¹⁵.

On July 3, 2020, the Ministry of Trade, Industry and Energy of Korea (MOTIE, 2020) announced the results of its response, after one year of Japanese export regulations. The main point is that it has completely bypassed Japan's export regulations by developing materials that had been imported from Japan previously, or by changing the procurement line to products made in third countries. Korea's countermeasures were systematically promoted at the national level by expanding to a material-parts-equipment (MPE) replacement strategy, which includes parts and equipment, in addition to the materials Japan decided to regulate. In addition to securing procurement lines for the three types of material inputs, MOTIE selected 100 items that could be newly regulated by Japan, and urgently set a special budget (\$ 0.87 billion in 2019, \$1.83 billion in 2020, and \$1.36 billion planned in 2021). It encouraged collaboration between research institutes and companies, supporting the establishment of domestic supply chains. As a result, Korea has significantly expanded the MPE capabilities of Korean companies, and has created a healthy R&D and production cooperation ecosystem between suppliers, lead firms, and research institutes.

In summary, the imports from Japan were substituted by domestic production or by geographical switches in supply-chain procurement patterns. A company called Soulbrain built a facility for hydrogen fluoride that can produce more than double 12-nano-class high-purity products. SK Materials succeeded in mass producing high-purity hydrogen fluoride gas in the 5-nano class. The sourcing of photoresist was diversified from Europe and was subsequently replaced by domestic production by attracting investment from DuPont. Fluorine polyimide was produced by Kolon Industries and SKC using their own technology, and quantities exceeding domestic demand are today being exported overseas.

15. Japan presented Korea's inadequate management of strategic goods as a justification for export restrictions, but the actual reason was dissatisfaction with the Korean Supreme Court's ruling (October 2018) on forced conscription of Koreans during the Japanese colonial era.

MOTIE requested companies to respond to supply shocks by increasing inventory levels of 100 key products by two to three times, compared to previous practice, and secured alternative sourcing from U.S. and European producers. In addition, it has significantly expanded the domestic supply base through foreign investment attraction, large-scale facility investment, and corporate M&A. Furthermore, anchored in the material parts supply and demand response support center, the government supported R&D activities by shortening the period of chemical substance licensing, and by offering financial support to the tune of \$4.52 billion. The U.S., China, and Belgium (EU), which are Japan's competitors, are all Korean PTA partners, and so tariffs on imported goods are exempted according to the agreements. Korea's diverse PTA network helped the country's firms to reduce tariff costs and handle the supply shock.

Looked at in hindsight, Japan's export regulation was an opportunity to improve the ecosystem of cooperation between Korean companies and to expand Korean value chains. The 'demand-supply company cooperation model' was introduced for the first time in Korea: to meet demand, companies, suppliers, and research centers cooperate from technology development to commercialization. According to MOTIE, a total of 17 cooperation models have been established to date, and the government has comprehensively supported companies with regard to R&D, finance, and regulatory measures. In addition, supplying SMEs and large demanding companies are participating in joint activities including joint technology development, quality testing, and production technology evaluation. To this end, the government invested \$240 million in 2021 and planned to invest an additional \$1.5 billion in 2022. Material development projects are being conducted jointly by public research institutes and private firms to enhance the overall efficiency of production systems.

IV. GVC Reorganization Policy in the COVID-19 Era

As several international organizations, including the International Monetary Fund, the OECD, the WTO, and the World Bank Group have pointed out, COVID-19 has posed major risks to the operation of GVCs. A Korean automobile production line had to be stopped in 2021 because of the disrupted supply of a single Chinese-made component. With the spread of COVID-19 around the world, uncertainty is increasing because of GVC reorganizations and rapid change in industrial topography, while digital transformation is urgent for the entire industry because of the upsurge in remote interaction. The Korean government in coping with the pressures for GVC reorganization and has

decided to use the changed global environment as an opportunity to advance the digitalization of its own industry. In addition, Korea has promoted a policy to develop its domestic supply chain more systematically in response to the restrictive Japanese export regulations.

1. Innovation Initiative for Materials-Parts-Equipment

Korea, which has developed its economy by riding on the global division of labor, has come to deeply recognize that supply stability of materials and parts essential for industrial production and reinforcement of technology innovation are crucial to future growth. The Korean government has been alerted to the need for GVC innovation in responding to global shocks such as the COVID-19 pandemic, and the demand for transitioning to the future challenges of high-tech industries. The success of Korea's response to Japanese export restrictions has become an important asset in responding to the supply-chain disruptions caused by the pandemic. If the COVID-19 situation is prolonged, amid continuing technological and trade conflicts between the U.S. and China, one may reasonably expect that supply disruptions for various items will arise. In 2020, based on the experience and achievements gained in responding to export regulations, it was decided to expand the Materials-Parts-Equipment (MPE) replacement strategy to the Innovation Initiative for MPE, in order to turn the crisis triggered by COVID-19 into a new export opportunity.

At a time of GVC reorganization, the government has encouraged companies to evaluate the risks of supply chains dependent on specific countries, and to recognize the importance of establishing a cooperative ecosystem with domestic SMEs and stabilizing their supply networks by identifying multiple alternative suppliers. The Innovation Initiative focused on turning the crisis into a new opportunity beyond responding to the timing of global supply-chain restructuring. In other words, it took this opportunity to make Korea a major player in the global MPE industry and helped set a goal for the further globalization of high-tech industries.

To this end, the priority list of items for domestic technology development, which was initially set out as a response to Japanese export regulations, was expanded to 338+ α items (158 advanced types, 180 general purpose types), by adding products necessary for next-generation technology development, in addition to the existing 100 items affected by Japanese restrictions. For this technology development, the Korean government decided to foster 100 companies specialized in MPE production, by investing more than \$4.35 billion by 2022.

In order to develop Korea as a global factory base for high-tech industries (including in MPE production), the decision was further taken to attract U-turn companies and overseas high-tech companies to Korea. The targeted industries are next-generation semiconductors, the bio industry, future cars (Big3), displays, secondary batteries, and robots. A budget of \$1.3 billion over five years is being allocated to high-tech companies that invest in Korea, expanding support tailored to corporate demand, designating high-tech investment zones, and providing financial and tax support to firms establishing in Korea. Additional benefits are to be provided to U-turn companies belonging to the high-tech industry.

The 338 items to which the Innovation Initiative applies have high dependence on a specific country or may cause supply weakness for political and/or economic reasons. When categorizing these importers by country, there are 100 products from Japan, 90 products from China, 91 products from the U.S. and Europe, and 57 products from India, Taiwan, and ASEAN. The α industries to be identified in the near future will focus on producing items necessary for the development of new industries, such as bio, environment and energy, and robots. Separately, the initiative plans to invest more than \$4.4 billion in next-generation strategic technologies by 2022, which will provide strong incentives for new investment by domestic and foreign companies.

2. Digital New Deal Policy

The Korean government, which has been struggling with the restructuring and upgrading of the country's manufacturing industry, has decided to push ahead with a 'Digital New Deal' Policy to restore vitality to the economy in the wake of the COVID-19 pandemic, and to accelerate the digitization of industry. The policy aim is to establish a digital-based industrial innovation growth strategy, to fundamentally enhance industrial competitiveness by incorporating industrial data and digital technology into the entire process of industrial activities by utilizing Korea's flagship industries and ICT competitiveness.

In June 2019, the Korean government announced a 'Manufacturing Renaissance' strategy and promoted digitalization, but at the time there was little response to the initiative, which failed to generate the hoped-for momentum. At the time, Korea's corporate sector suggested that companies felt uncertain about the effects of digital transformation, lacked technology, manpower, and funds, and that digital innovation was difficult because of the lack of an adequate domestic legal framework governing business use of big data. Most companies were hesitant about digitalization in earnest.

However, looking at the far-reaching changes in the business environment brought about by the pandemic, Korean companies have come to embrace digitalization. Digital transformation is establishing itself as a key factor in driving industrial innovation, and determining national competitiveness based on new digital technologies including data, networks, and artificial intelligence. According to a survey conducted by the Korean Chamber of Commerce (2020), on the digitalization of companies after COVID-19, two out of three responding companies affirmed their intention to promote digital transformation. From the government's point of view, digitalization is also necessary to overcome the effects of the pandemic, and a new growth engine is needed to revive the economy, which stagnated because of the pandemic. In July 2020, the Korean government announced its Digital New Deal Policy. In order to visualize R&D performance early on, the government decided to make large-scale investments in the digital sector, with a total of \$20 billion from 2020 to 2022, and \$50.6 billion by 2025.

The Digital New Deal is composed of 12 initiatives in four major fields. These are: data dams, intelligent government, smart medical infrastructure, and the digitization of public safety infrastructure.

Korea decided to exploit the ongoing transformation in the fabric of economic and social structures (e.g. spread of remote interaction and accelerated digital transformation caused by COVID-19) as an opportunity to expand its digital capabilities, noting that digital-based platform companies will create 70% of new value added of global GDP over the coming decade¹⁶. Through digital innovation of its industry, the country is setting itself the goal of ranking among the world's four major industrial powerhouses by integrating data, networks, and artificial intelligence technologies into the entire industry, to generate innovation in the value chain, based on collaboration between large companies and SMEs. Through the Digital New Deal policy, the aim is not only to overcome the difficulties Korean industry faces due to the restructuring of international supply chains and the economic downturn provoked by COVID-19, but also to provide an opportunity to take a technological leap forward. To this end, the following three initiatives are planned:

- Supporting the use of industrial data tailored to industry demands;
- Advancing industrial value chains based on big data and artificial intelligence;
- Establishing the foundation for digital innovation in industry.

16. World Economic Forum (2020a),

The Korean government expects the Digital New Deal to expand the country's economic growth potential and create jobs. The projected number of new jobs is 390,000 by 2022 and 903,000 by 2025, which should provide a major boost to a labor market adversely affected by the pandemic.

Digital New Deal Fund to Expand Investment

The development and industrialization of new technologies require large financial inputs. There is an obvious limit to increasing governmental expenditures. Accordingly, Korea conceived a New Deal Investment Fund. By introducing investment funds, \$147.8 billion stands to be invested in the Digital New Deal over the next five years. There are three types of New Deal Funds proposed by the government: (i) a 'policy-type New Deal Fund' that invests in new deal projects including hydrogen cars, renewable energy, and green smart schools; (ii) a 'New Deal Infrastructure Fund' that invests in solar power, which provides tax benefits; and (iii) a 'Private New Deal Fund' of general financial companies.

The Korean government has provided principal guarantees and tax incentives to invest in areas where abundant liquidity can be used productively. Korean citizens will also be given opportunities to invest in future industries. On September 3, 2020, the Korean government announced a New Deal Fund to induce liquidity released onto the market to be invested in the Korean version of the New Deal project. On that day, a company called Kakao Games had an application to purchase IPO stocks, and a whopping \$52.2 billion was invested, representing more than 10% of Korea's yearly government budget. The stock was oversubscribed by a remarkable 1,525:1 ratio. The strategy of attracting abundant liquidity to investment in productive fields is expected to increase the possibility of success of the Digital New Deal Policy, while reducing governmental expenses.

To promote the Digital New Deal, the government decided to pursue an open stance in terms of digital trade governance, notably by promoting the Digital Trade Agreement (DTA) to underpin the advancement of new industries overseas, while revising domestic laws and regulations in the digital space. Three existing data-related laws are being revised, including the Act on E-commerce, and consideration is being given to enacting a Digital-based Industrial Innovation Growth Promotion Act and an Industrial Convergence Promotion Act. Pursuit of the DTA aims to promote overseas data collection and utilization, and the expansion of new Korean data-based industries abroad. A first DTA is to be signed with Singapore, a bridgehead for deepened entry into the ASEAN market, with subsequent extensions to other countries to encourage the formation of digital blocs. Support for expanding the international digital

capabilities of Korean companies through digital cooperation projects can help promote exchanges and utilization of data between countries, and secure interoperability in new data-based industries.

Digital New Deal Policy and Expansion of GVCs

The Digital New Deal policy will also contribute to stabilizing Korean GVCs. Above all, it will expand the production capacity of the domestic high-tech manufacturing sectors. While the U-turn policy may not always be attractive, because of prevailing Korean conditions, companies that are aware of the importance of the digital economy are highly responsive to the government's digital policy (Korean Chamber of Commerce, 2020). As a result, corporate investment in Korea is widely expected to increase.

By developing artificial intelligence and big data technology, and by expanding the use of industrial data, the manufacturing process will be streamlined, and collaboration will be promoted among large, medium, smaller-sized enterprises, business partners, and value chain stages, to stabilize Korean GVCs. As digital technology spreads to new industries and businesses, the economic effect will also expand. Accordingly, the government is promoting policies to establish a private-based commercial data-utilization system, so that digital transformation can take place early in the industrial field, and to promote private cooperation and establish a system foundation.

As part of its industrial policy, Korea has been making efforts to foster the parts and materials sectors in the context of national value chain management. In relation to the Digital New Deal policy, the focus will be placed on improving the material development environment and reducing costs and time, by utilizing big data and artificial intelligence for the four major materials and parts industries (metals, chemicals, ceramics, and fibers). The Korean government intends to promote innovation in the production processes in these strategic fields, in order to strengthen the links between the Digital New Deal policy and the expansion of domestic value chains. It will promote the development of data-based materials and parts, advance the equipment industry such as shipbuilding and steel, and improve the efficiency and safety of energy production. A strategy to strengthen the competitiveness of the traditional manufacturing industry is also being promoted by using large-scale facilities and incorporating digital technology into the entire production and development process of the energy and equipment industries, such as shipbuilding and steel, with a view to generating economy-wide externalities.

V. Conclusion and Policy Implications

In recent years, there have been many signs pointing to a weakening of Korea's growth trajectory. It was possible to grow at a pace of 3%-4% in 2015-2019, but growth fell to 2% in 2021. Against this background, the competitiveness of the manufacturing industry weakened because of an increase in labor costs, and growth capacity slowed as the digitization of the economy and the deployment of the fourth industrial revolution were delayed. As the rate of economic growth lagged amid continued population aging, domestic demand, which sank significantly, did not respond even to various governmental stimulus packages. Exports have been the backbone of the Korean economy. During the Trump administration, conflict between the United States and China intensified, and in 2019, Japan's restrictions on exports of key materials to Korea greatly deteriorated Korea's trading environment. Then, at the beginning of 2020, the coronavirus flowed from China into Korea, and in February 2020, Korea became the country with the second highest COVID-19 infection rates after China. With the World Health Organization designating COVID-19 as a global pandemic on March 11, Korea's export path became even more difficult, as many countries imposed border closures and domestic self-isolation. Korea was concerned that it might be at risk of the combined effects of a sanitary and economic crisis. However, Korea succeeded in suppressing the spread of COVID-19 within two months, and actively directed policies to support the reorganization and strengthened resilience of the country's GVCs.

The Bank of Korea (2020) pointed out that the number of Korean companies that cannot pay interest is increasing, and that the restructuring of the manufacturing industry needs to be accelerated, but the OECD predicted that Korea's economic growth rate would contract by -0.8% in 2021. With the outbreak of a small-scale coronavirus infection in 2020 August, the growth rate was expected to decrease slightly, but among OECD member countries, Korea still maintained the highest growth rate. This meant that it was less affected than other countries by the pandemic. This was in part a reflection of the Korean manufacturing sector's strong domestic value chains and productive capacity, both of which helped the country tackle COVID-19 in its early phase.

The role of the government is critical in responding to external shocks. Even if the business environment has changed, it is not easy for companies to relocate their overseas production to other countries. Also, even if the supply chain has problems due to the pandemic, companies may not be able to adapt easily. In terms of industrial policy, various support measures should be put in place so companies can adapt earlier to the reorganization of their GVCs. In addition to efforts directed to shoring-up the resilience of supply chains at

national level, including support for diversification of sourcing by companies, and strengthening cooperation channels between countries, Korea must prepare for the post-COVID-19 era by supporting companies in overcoming the COVID-19 crisis and pursuing the restructuring of their value chains.

Although revised several times, Korea's U-turn policy continues to show signs of ineffectiveness. Many companies that entered China for the purpose of accessing the low-wage labor force are not likely to do business in Korea because they cannot be profitable there. However, the Digital New Deal Policy not only meets the needs of Korean companies, but also provides incentives for companies to invest in future industries. Also, it will be of interest for companies to make full use of planned digital funds, affording access to a huge pool of investment, equivalent to a third of Korea's annual budget. Policies that develop core basic materials and technologies can also create synergies with the Digital New Deal Policy, because even traditional manufacturing sectors stand to increase their productivity levels through digitization.

In confronting a changing global business environment, even the world's best companies will be cut off if they cannot flexibly adjust their existing business models or lay the foundations for creating new value added based on digital transformation. Prior to the coronavirus, major economies, such as the United States and Japan, strengthened their industrial competitiveness by converging industrial data and digital technology with their own strengths in ICT sectors. The conflict between the U.S. and China was also triggered in part by competition over the latest frontiers in digital technology. Korea has used the COVID-19 crisis as an opportunity to promote the digitalization of its own industry. The global supply chain risks arising from COVID-19 will remain even in the post-pandemic era, implying that companies must strive to enhance GVC resilience by expanding their domestic value chains, promoting cooperative linkages between lead firms and SME suppliers, diversifying their sources of supply, and digitizing their supply chains in responding to such risks.

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11

TRADE POLICY AND TRADE AGREEMENTS: INSIGHTS FROM THE KOREAN EXPERIENCE

Siwook Lee

Introduction

The Korean experience on economic development over the last several decades has served as both an inspiration and a challenge for developing world policymakers. Korea started its industrialization as one of the least developed countries in the early 1960s and succeeded in achieving sustained high-level economic growth with shared prosperity. And it is widely recognized that active trade promotion has been a decisive factor in its rapid industrial transformation and socio-economic development.

According to Lee and Kim (2019), the contribution of net exports to Korea's economic growth from 1960 to 2017 was around 29.1%, which means that net exports accounted for 2.3 percentage points per annum of the country's GDP growth rate. This is undeniably an impressive achievement, taking into account that the average GDP growth rates of developed and developing countries over the period were 3.2% and 3.4%, respectively¹. Connolly and Yi (2015) also provided empirical evidence that trade policy reforms explain 17% of Korea's

1. Here, net exports refer to net valued-added in the exporting sector by subtracting final and intermediate import demands for producing exporting items from total export volume.

catch-up to the G7 economies in labor productivity in manufacturing, especially through improved access to international multi-stage production and capital goods imports.

Korea's trade policy since the early 1980s has centered on building a free and open economy based on market principles. The Korean government has engaged in trade liberalization by actively participating not only in multilateral initiatives, but also various free trade agreements across regions (FTAs hereafter). And, with multilateral negotiations under the World Trade Organization system stalled since the late 1990s, FTAs have gradually emerged as a key component of Korea's trade policy. Since then, the government has continued to ratchet up its efforts to expand its global FTA network, under the assumption that expanding the country's FTA network would serve not as a stumbling block but rather as a stepping-stone for worldwide trade liberalization. As a result, Korea now has a total of 16 FTAs in effect with 57 partners. Korea's FTA partner countries account for 77% of global GDP and 70% of Korea's overall trade. Significantly, Korea ranks as one of the few countries to have reached preferential agreements with four of the leading economies of the world, notably the United States, the European Union, China, and India.

Korea's extensive FTA network has served as a safety valve for its external trade in the face of shrinking global trade and rising uncertainty flowing from prolonged global growth weaknesses and rising trade protectionism. During 2018-19, Korea's foreign trade volume fell 8.3% on-year to \$1045.6 billion. The country's trade volume with non-FTA partners contracted by 12.7% in 2018-19, while trade with FTA partners showed a more modest 6.2% decline. Such trends suggest that Korea's FTA strategy has had a stabilizing effect on the country's trade and economic performance in the midst of considerable uncertainties in international trade.

In what follows, we review Korea's trade-led economic trajectory and trade policy framework with a special focus on the country's FTA policy. Sharing the Korean experience could be particularly beneficial for Morocco, given the range of similarities between the two countries. Firstly, both countries are highly trade-dependent, with trade volumes exceeding 80% of their respective GDPs. They are also among a handful of countries to have entered into free-trade relationships with both the United States and the European Union. Furthermore, like Morocco, Korea has faced major political challenges in forging deep economic ties with its immediate periphery, forcing it to pursue a policy of global trade-led diplomacy. Finally, both countries aim to exercise middle-power leadership in ongoing processes of regional economic integration—Korea within the Regional Comprehensive Economic Partnership (RCEP) and Morocco within the African Continental Free Trade Area (AfCFTA)—and to emerge as trade

and investment hubs in their respective regions.

In this section, we address the following issues regarding Korea's trade policy:

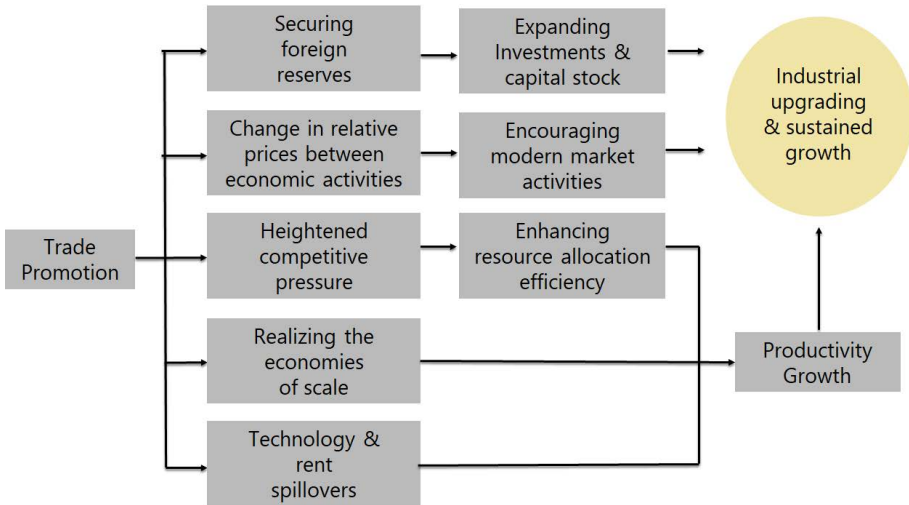
- What role has trade policy played in Korea's overall economic policy mix?
- What status does FTA policy have in Korea's trade policy regime?
- How does the government go about selecting its FTA partners?
- How is the country's trade policy formulated and implemented?
- How are the impacts of trade policy assessed?
- How are the distributional downsides of market opening addressed?
- How extensive is the government's trade policy dialogue with the private sector and civil society?

The Role of Trade Policy in Korea's Overall Economic Policy Mix²

It is widely recognized that Korea's externally oriented trade policy has played a vital role in both economic growth and industrial transformation. As depicted in Figure 1, there are several potential channels through which an activist trade policy can induce long-term sustainable growth. The objective and approach of trade policy should differ depending on the binding constraints on an economy and the various channels through which trade policy measures can best overcome them³.

2. The discussion in this subsection is based largely on the author's own work in Lee (2019).

3. For instance, the foreign reserve channel is particularly important for resource-scarce countries with low levels of domestic savings and credit. This might not be the case for developing economies with strong national resource endowments. For them, industrial diversification through technological spillovers and resource reallocation channels must be a more important goal for industrial and trade policy.

Figure 1. Effects of Export Promotion on Economic Growth

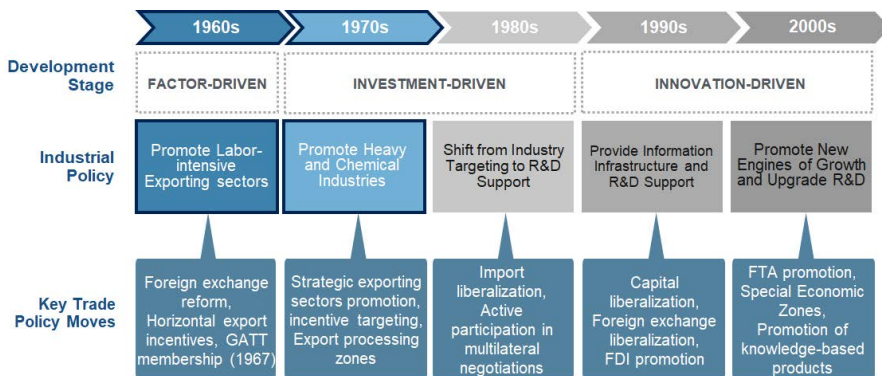
Source: Author's own.

At the early stages of economic development in the 1960s, Korea's economic policy was centered on export promotion to secure foreign exchange receipts and nurture productive capacities for manufacturing exports. Foreign exchange reserves obtained through exporting activities were used intensively to import intermediate inputs and capital goods for further development. Export-promotion efforts also fostered a reallocation of resources and stimulated more productive market activities. During the period, two important policy reforms aimed at promoting exports: implementation of foreign-exchange reforms involving a radical devaluation, and introduction of export incentives and the partial liberalization of import licensing.

One distinct feature of Korea's export incentive system in the 1960s involved the provision of 'horizontal incentives' by which the government did not pursue incentive targeting for specific industries or firms. Rather, access to export incentives was virtually automatic for any kind of production or commercial activity linked to exports. Such a system made sense considering that the primary objective of export promotion at the time was simply to maximize export revenues by promoting overall exporting activities. The horizontal incentive scheme contributed to increasing financial resources for economic development and helped create favorable market environments for further economic diversification.

Starting in the 1970s, the government’s policy focus shifted towards nurturing heavy and chemical industries (HCI hereafter) as strategic exporting sectors (see Figure 2). The main reason for this move was to address persistent trade deficits, mainly arising from the country’s heavy reliance on imported intermediate inputs and capital goods that were mostly HCI products. Unlike the 1960s, the government directed an extensive set of policy supports to these strategic sectors, including subsidized loans, loan repayment guarantees, tax holidays, large-scale infrastructural provision, and vocational training programs. Industrial and trade policies played a central role in the overall economic policy mix during this period, with all other key areas of economic policy—human capital development, science and technology, fiscal policy, and macro-economic policies—aligned with Korea’s industrial and trade policy objectives.

Figure 2. Evolution of Korea’s Industrial and Trade Policies



Source: Author’s own.

Korea’s HCI drive in the 1970s contributed to substantial industrial upgrading and lessened dependence on imported intermediates and capital goods. But it also resulted in distortions in resource allocation and led to over-capacity problems, especially after the global oil shocks of the late 1970s⁴. Addressing the various downsides of the country’s HCI drive, the government’s policy paradigm shifted in the 1980s from government-led to a market-oriented stance, with particular emphasis placed on economic stabilization, market liberalization, and deregulation.

4. In fact, recent historical evidence suggests that government-led strategic-sector promotion can be a risky policy option. Along with Korea, several countries, notably Algeria and Russia, also adopted HCI drives in the 1970s, but such policies failed to attain the intended goal. Success in the Korean case owed chiefly to the country’s human capital development, technological improvements, sound governance structure, and historical luck linked to a surge in global demand for HCI products in the 1980s and 1990s.

Since then, Korea's trade policy has focused primarily on building a free and open economy based on market principles. The Korean government has bolstered trade liberalization policies by reducing trade barriers and accelerating import liberalization. To enhance the international competitiveness of its businesses, Korea has focused on enlarging access to global markets through active participation in multilateral negotiations, bilateral and regional FTA negotiations, and closer economic cooperation with its key trading partners. Dropping its long-held bias against foreign direct investment (FDI hereafter), Korea also started to prioritize FDI attraction as a key component of its growth strategy, after the Asian financial crisis in the late 1990s.

Trade policy is no longer as central to the country's policy mix as it was in the recent past. Still, it remains an important policy domain, not least because of Korea's continued high dependence on trade and the stagnant pace of recent domestic market growth. The Korean government continues to expand its FTA network by actively pursuing mega-FTAs and seeking new FTAs with emerging economies, and actively participates in the WTO's multilateral and plurilateral negotiations on further worldwide trade liberalization and rule-making. Moreover, as trade policy has become quite a sensitive issue domestically—as in many other advanced economies—the government is increasingly mindful of ensuring greater inclusivity and transparency, and has directed increasing attention lately to providing an effective safety net for sectors made vulnerable by market opening.

Tracing the Evolution of Korea's FTA Policy

As noted above, FTAs have been a central policy tool over the past two decades to improve the access of Korean producers to global markets and maintain the country's growth momentum. As shown in Table 1, the historical evolution of Korea's FTA policies can be characterized by three phases.

Table 1.3. Historical Evolution of Korea's FTA policy

	FTA 1.0 Period (1998-2004)	FTA 2.0 Period (2004-2012)	FTA 3.0 Period (2012 and Onward)
Policy Focus	Initial FTA Experimentation and Institutional Set-ups	Full-scaled and Simultaneous FTA Promotion	Mega FTAs Participation and East-Asian Economic Integration
Key Institutional Moves	<ul style="list-style-type: none"> - Chile as the first FTA negotiation partner (1998) - Establishment of OMT (Office of the Minister of Trade) (1998) - Special Act on Assistance to Farmers, Fishers, etc following the Conclusion of FTAs (2004) 	<ul style="list-style-type: none"> - FTA Roadmap (2003-4) - Rules on FTA Negotiations and Signing (2004) - Act on Trade Adjustment Assistance (2007) - Act on Conclusion Procedure and Implementation of Commercial Treaties (2012) 	<ul style="list-style-type: none"> - FTA New Roadmap (2013) - Initiation of Korea-China-Japan FTA negotiation - Initiation of RCEP negotiation
FTAs in Effective	Chile (2004)	Singapore, EFTA (2006), ASEAN (2007), India (2010), Peru, EU (2011), US (2012)	Turkey (2013), Australia (2014), Canada, New Zealand, Vietnam, China (2015), Colombia (2016), 5 countries in Central America (2019-2020)

Source: Author's own based on IIT (2014).

Korea was an FTA latecomer, joining the preferential negotiation bandwagon in the late 1990s. The initiation of its first FTA with Chile was merely a defensive response to the rapid proliferation of FTAs around the world. Faced with the continued stalemate in multilateral trade talks at the WTO, the Korean government began to view FTAs as a key means of pursuing trade liberalization and securing access to new growth engines. Meanwhile, the government's lack of experience in conducting FTA negotiations prompted Korean officials address a variety of new challenges, including overhauling relevant institutional systems and reaching out to domestic interest groups.

In 1998, the Office of the Minister of Trade (OMT hereafter) was established under the Ministry of Foreign Affairs, to coordinate the inter-agency process and lead trade negotiations with foreign partners. At the same time, the government scaled-up efforts to communicate with the private sector and with the National Assembly through various channels, including public hearings, in transacting the Korea-Chile FTA negotiations while responding to vocal opposition from local interest groups, notably farmers. Such efforts led to the enactment of a Special Act on Assistance to Farmers, Fisheries etc, following the Conclusion of Free Trade Agreements, establishing for the first time a compensation scheme for vulnerable sectors.

Once the Korea-Chile FTA was concluded in 2003, the Korean government began to push more systematically for FTAs. Based on the analysis and evaluation of internal and external economic conditions, it announced an FTA Promotion Roadmap in 2004, which delineated the country's mid-to-long term trade policy goals, negotiating sequence, and other elements of future FTAs. In addition, a document spelling out Rules on FTA Negotiations and Signing was also prepared to ensure the effective conduct and conclusion of FTA negotiations; it was further developed and incorporated into the Act on Conclusion Procedure and Implementation of Commercial Treaties of 2012, known as Trade Procedure Act. The coverage of the Act is not confined to FTAs and includes all trade treaties. The Act strengthened procedures for gathering public opinion and clarified the role of the National Assembly in monitoring trade procedures. The government followed up in 2007 with an Act on Trade Adjustment Assistance following the Free Trade Agreements, to assist manufacturing firms and service companies (and their employees) that sustained losses or injury as a result of the implementation of negotiated FTAs.

In many regards, the experience of negotiating an FTA with the United States in the mid-2000s played a pivotal role in shaping the overall direction and contents of Korea's FTA policy. Since then, Korea's FTA policy had been transformed from a defensive strategy into an ambitious one with far-reaching scope, aiming no longer at merely promoting trade, but also at helping to accelerate domestic reforms and drive regulatory change.

Finally, the Korean government released a New Trade Roadmap in 2013 to align its FTA strategy with the new global trade order. The Roadmap emphasizes the importance of Korea's linchpin role in regional economic integration, especially between the (then U.S.-led) Trans-Pacific Strategic Economic Partnership (TPP hereafter) and the China-led RCEP. It also aims to pursue win-win FTA strategies with emerging economies, strengthen linkages between Korea's industrial and trade policies, ensure the full implementation of completed agreements, and facilitate closer communication and collaboration between the government and the Korean private sector. Korea currently has 16 FTAs in force with 57 trading partners, and aimed to complete preferential pacts with 12 more countries by the end of 2020, although the COVID-19 pandemic has proven a deterrent to ongoing negotiations⁵.

5. Please refer to the Appendix for a complete list of Korea's FTA partners.

Choosing FTA Partners

Since an FTA can exert significant effects on the overall economy, the choice and appropriate mix of FTA partnerships are important policy considerations. FTA negotiations can of course only be carried out with bilateral consent, so there is no guarantee that the FTA priorities of any one country will always proceed as planned. Still, in mapping its FTA strategy, a government must conduct a systematic ex-ante analysis of target partners and assess the economy-wide and sectoral impacts such an agreement is likely to exert on the domestic economy.

The Korean Ministry of Trade, Industry and Energy (MOTIE hereafter) initiates feasibility studies on potential FTAs several years before actual FTA negotiations take place. Studies are usually conducted by government-funded research institutes and/or other relevant research organizations⁶.

The FTA Promotion Roadmap of 2004 detailed the criteria and methods the Korean government utilizes to identify and prioritize potential negotiating partners. As depicted in Table 2, a variety of criteria and targets/indicators—both quantitative and qualitative—are used for this purpose. Various empirical methods, including Computational General Equilibrium models (CGE models hereafter) and sector specific partial equilibrium analyses, are employed to forecast potential economic impacts.

In the case of FTAs with major advanced economies, the government aims not only to promote expanded two-way trade and FDI, but also uses them as a means of promoting competition in the domestic market through adoption of pro-competitive regulatory frameworks. The government also pursues FTAs with developing countries in parallel to those with advanced economies, with a view to mitigating the possible adverse short-term impacts on domestic industries likely to flow from engagement with more advanced partners. Korea's agricultural and fisheries industries are treated as sensitive sectors, and particular

6. Since the 1970s, the Korean government has developed and maintained an extensive network of government-funded research institutes, which is one of the distinctive features of the Korean system. Such institutions have played a significant role in the country's development trajectory through their close association in policy development, monitoring and evaluation, and consultations with the government. Korea counts 23 government-funded research institutes in the humanities, social, and economic fields, and 25 in the science and technology fields. Among those in the economic field that help the government to conduct FTA feasibility studies and impact assessments, the most important players are the Korean Institute for International Economic Policy (KIEP), the Korean Institute for Industrial Economics and Trade (KIET), the Korean Development Institute (KDI), the Korean Economic Research Institute (KERI), and the Korean Rural Economic Institute (KREI). According to the 2019 Global Go To Think Tank Index published by the University of Pennsylvania, KIEP ranked fourth globally in the category of International Economic Policy and KDI topped the list of policy research institutions in international development among more than 8,000 think tanks around world.

attention is paid to the potential impact on those sectors in selecting FTA partners.

Table 2. Key Criteria of FTA Partner Selection

Criteria	Targets/Indicators
Economic Benefits	<ul style="list-style-type: none"> - GDP/Income growth - Employment Creation - FDI promotion
Economic Costs	<ul style="list-style-type: none"> - Industrial Upgrading - Trade expansion - Technological spillover
Economic Complementarity	<ul style="list-style-type: none"> - Industrial restructuring costs - Job losses
Sectoral Consideration	<ul style="list-style-type: none"> - Complementarity in market structure - Complementarity in trade structure - Potential for competition in high-tech industries
Others	<ul style="list-style-type: none"> - Stimulus for productivity enhancement of the service sector - The agricultural and fishery industries as sensitive sectors
	<ul style="list-style-type: none"> - Geographic adjacency - Political & diplomatic consideration - Capacity to accommodate target country's interests

Source: Author's own.

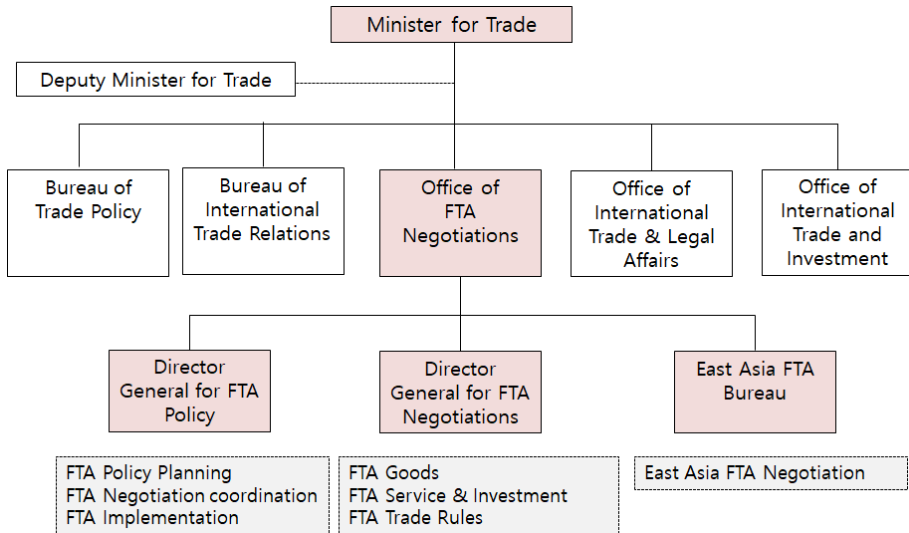
Formulation and Implementation of Trade Policy and Trade Agreements

In Korea, MOTIE is responsible for trade and industrial policies. The Ministry formulates trade policies and makes policy decisions in consultation with relevant stakeholders (see Figure 3). Ministerial Meetings for International Economic Affairs, chaired by the Deputy Prime Minister (Minister of Economy and Finance), review and coordinate trade-related issues that require consultation among government ministries.

The President of Korea has the authority to initiate and conclude FTA negotiations. But continuous reporting to the National Assembly is required to secure its approval prior to ratification of any agreement. The country's Trade Procedure Act describes the process through which FTAs are to be prepared, concluded, and promoted. It also institutionalizes public advisory boards and public hearings, and prescribes the set of procedures required to enhance transparency, promote efficient negotiations with adequate public understanding, and active civil-society participation. Such procedures relate to three distinct

stages of the FTA negotiating process: pre-negotiation phase, negotiation phase, and post-negotiation phase.

Figure 3. Organizational Structure of the Ministry for Trade



Source: MOTIE.

In the pre-negotiation phase, it is common for Korea and its trading partners to establish a joint research committee bringing together industry, government, and academia, although this is not a mandatory procedure under the Trade Procedure Act. The joint committee carries out the feasibility studies, exchanges relevant research outputs and information, and identifies potential negotiation issues between the Parties. It may take several months or a few years to finalize such joint research.

Once an FTA negotiating mandate begins to take shape, MOTIE prepares a comprehensive plan for concluding the FTA. This includes the objectives, schedule, expected effects, and key contents of the negotiations, and a review of outstanding issues and strategies for addressing such issues. According to the Trade Procedure Act, MOTIE also needs to hold public hearings to seek opinions from experts and interested parties before formulating the plan. Once the plan is finalized, it must by law be immediately presented to the National Assembly.

Prior to the launch of FTA negotiations, MOTIE is required to assess the economic feasibility and other aspects of concluding a trade treaty. Relevant central administrative agencies, government-funded research institutes and/or other research organizations usually help MOTIE to undertake these assessments.

During the negotiation phase, the Office of the Minister for Trade (OMT), now within MOTIE, leads and coordinates FTA negotiations on the basis of the plan for concluding the FTA, while decisions on major FTA policy issues are taken at Ministerial Meetings for International Economic Affairs where necessary. If modifications to the plan and/or the negotiation process are needed, or if a significant impact on domestic industries is identified, MOTIE should immediately report such information to the National Assembly. The government must endeavor to reflect the opinions expressed by the National Assembly in the negotiation process.

When trade negotiations are concluded with a provisional signature, MOTIE must promptly report the details of the negotiating outcomes and the main contents of the agreement to the National Assembly. Notification to the general public also follows. In addition, MOTIE needs to conduct an impact assessment (see section below).

Once a trade treaty is signed, the government requests the National Assembly to consent to ratification, based on information produced by the impact assessment, complementary measures to protect domestic industries, the enactment or amendment of acts necessary for implementing the treaty, etc. If the National Assembly agrees to sign the deal after reviewing it, then the President ratifies the FTA. Finally, the Trade Procedure Act also stipulates that MOTIE should hold an information session for interested parties before the treaty enters into force.

Impact Assessment and Trade Adjustment Assistance

According to the Trade Procedure Act, two different waves of impact assessment should be carried out in the post-negotiation phase. A first impact assessment must be conducted immediately when an FTA is concluded. This assessment must provide information and research outputs on anticipated impacts on the overall domestic economy, national finances, domestic industries, and employment.

A second wave of evaluations centered on treaty implementation is conducted every five years after an FTA enters into force. It should be based on objectively verifiable data and completed within six months of the deadline. MOTIE

may conduct additional impact assessments whenever necessary in response to various economic considerations or impacts. The Trade Procedure Act stipulates that the following issues should be fully addressed by impact assessment studies:

- Economic effects of the FTA in force;
- Effectiveness of remedial domestic measures for adversely affected sectors;
- Joint committee discussions, including on the implementation of treaty obligations by the trading partner; etc.

Table 3 describes the key variables and evaluation methods used in impact assessments of Korean FTAs. Impact assessments are sought not only with regard to the actual implementation of FTA provisions, such as tariff reduction, services and investment commitments, and/or rules of origin, but also on an FTA’s actual economic effects, including on economic growth, employment, trade, and investment. An assessment of the performance of the Trade Adjustment Assistance System, which was made as part of domestic measures, is also foreseen.

Table 3. Key Evaluation Areas and Methods for Trade-Related Impact Assessments

	Monitoring for FTA Implementation			Economic Impact Evaluation				
	Tariff Elimination	Service & Investment Liberalization	Other issues	Trade	Growth & Welfare	Production & Employment	Investment	Trade Adjustment Assistance
Korea-Chile (2014)1	○	○	○	○	○	○	○	○
Korea-ASEAN (2015)	○	○	○	○	○	○	○	-
Korea-EU (2016)	○	○	○	○	○	○	○	○
Korea-U.S. (2018)	○	○	○	○	○	○	○	○
Evaluation Methods	Conformity check with FTA clauses			Gravity Model	CGE	Input-Output Analysis	Knowledge capital model	Outcome Review

Note: The date in brackets is the year in which the impact assessment relating to a specific FTA took place.

Source: Author’s own.

Like any trade policy measure, FTAs are potentially sensitive, generating both gains and losses. Furthermore, because of the growing inter-connectedness of global and domestic market activity, and the broadening substantive remit of modern trade agreements, pursuing FTAs is no longer the exclusive preserve of a country's foreign policy but is increasingly a hot-button policy issue affecting large swathes of the domestic economy. For the government to push forward an FTA that commands broad social consensus, an appropriate adjustment system needs to be set up to mitigate the adverse distributional consequences likely to flow from trade liberalization initiatives.

The Korean government has introduced a number of laws and domestic supplemental measures for FTAs to address the distributional downsides of market opening. The Special Act on Assistance to Farmers, Fishermen, Etc. Following the Conclusion of Free Trade Agreements was enacted in 2004, just after the ratification of Korea's first FTA with Chile. It aims to contribute to the stability of incomes of farmers and fishermen by helping to improve their competitiveness and establishing efficient measures to support those who sustain or are likely to sustain losses or injury caused by the implementation of an FTA. The government facilitates supportive measures to the extent permitted under the Marrakesh Agreement Establishing the World Trade Organization for improving the competitiveness of agriculture, fisheries, etc. The Korean government continues to enhance the effectiveness of compensatory measures by revising eligibility criteria, expanding the scope of eligible beneficiaries, and raising the amount of adjustment assistance on offer (see Table 4).

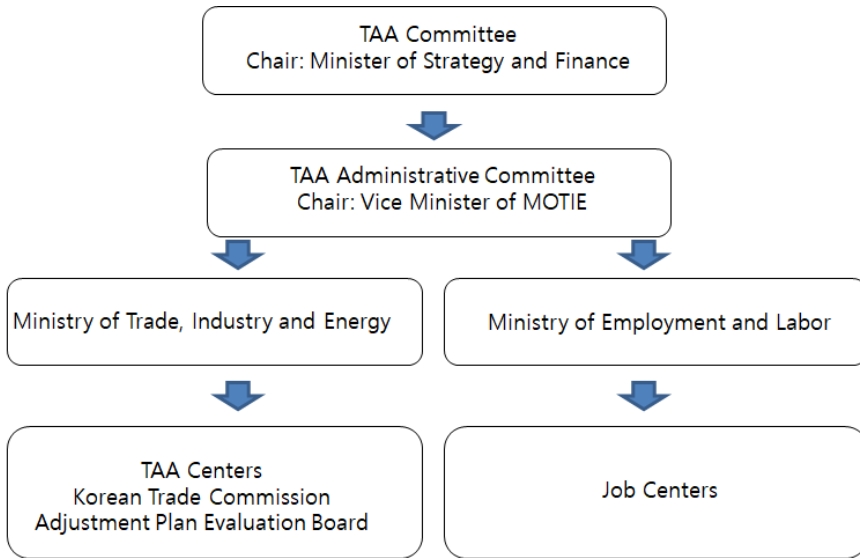
Table 4. FTA-related Adjustment Assistance

Sector	Supporting Areas	
Agriculture, livestock & Fisheries	Damage Compensation	<ul style="list-style-type: none"> - Cash payment for damage compensation - Subsidy for closed businesses
	Strengthening Competitiveness	<ul style="list-style-type: none"> - Improving productivity for production, processing, and distribution - Modernizing production facilities - Expanding production infrastructure - Opening local logistics centers - Ensuring food safety and fostering seed industry - Promoting agricultural and food exports
	Structural restructuring	<ul style="list-style-type: none"> - Restructuring agricultural sector - Improving income stability
Manufacturing & Services	Damage Compensation	<ul style="list-style-type: none"> - Trade Adjustment Assistance Program - Support for closed single-person business Owners
	Strengthening Competitiveness	<ul style="list-style-type: none"> - Increasing R&D investment - Support for trade promotion

Source: IIT (2014)

The Act on Trade Adjustment Assistance following Free Trade Agreements, was enacted in 2007 to help enterprises engaging in manufacturing or providing services that sustain or are likely to sustain any loss or damage because of the implementation of a trade agreement. Korea's Trade Adjustment Assistance (TAA hereafter) programs were subsequently expanded to provide financial and technical assistance to workers adversely affected by the implementation of FTAs (see Figure 4).

MOTIE administers TAA-related programs. TAA Centers operating under the Small Business Corporation, a non-profit, government-funded organization, provide counseling and guidance relating to TAA and assist firms that want to apply for TAA. The key criterion for TAA eligibility is actual or potential occurrence of serious loss or damage, i.e. either a reduction in overall sales/production by 10% for six months relative to the previous year, or a similar level of damage in operating income, number of employees, operation rates, inventories, etc. Any firm intending to be designated as an eligible enterprise must submit an application to the Minister of MOTIE.

Figure 4. The Korean Trade Adjustment Assistance System

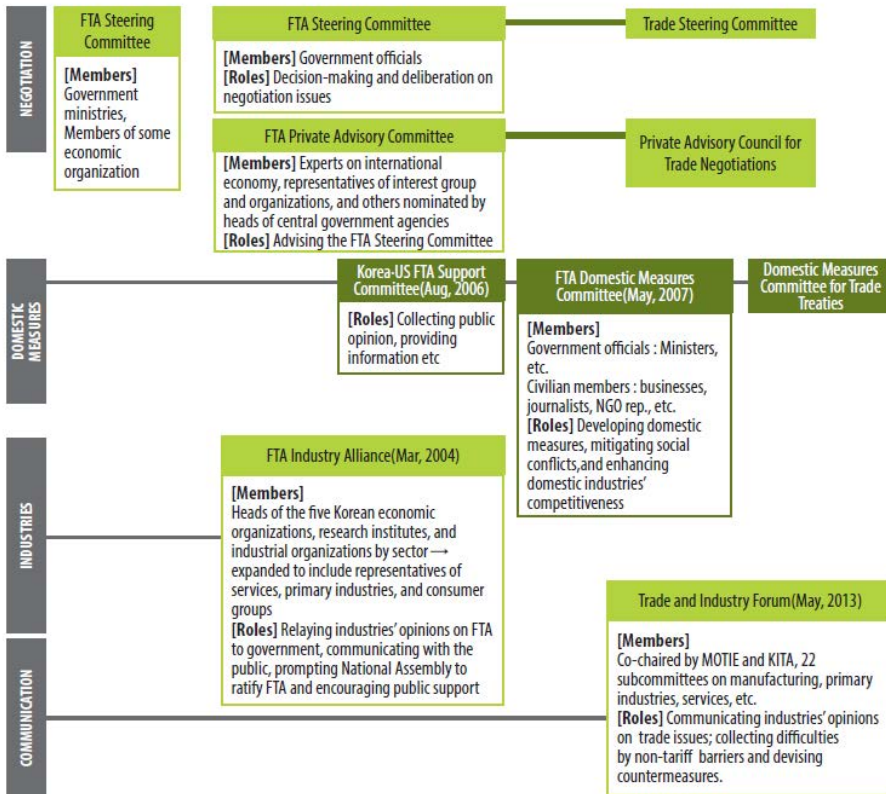
Source: Author's revision based on Heo (2007).

The Korean Ministry of Employment and Labor manages TAA programs designed to support adversely affected workers. A worker who is laid off or is likely to be laid off, or is forced to reduce his or her working hours, could qualify for the TAA, if the worker is employed by a firm satisfying the following conditions: 1) Firms that are granted trade adjustment assistance; 2) Firms that supply to firms given trade-adjustment assistance, 3) Firms that have to relocate factories, face direct competition, or rely on import substitution because of increased imports, and 4) Firms that qualify for trade-adjustment assistance but did not apply for the designation. A worker who intends to receive the TAA should submit an application for designation of an employee eligible for assistance in trade adjustment to the Minister of Employment and Labor within two years of the date on which the relevant employee experiences trade-induced hardship.

The Role of the Private Sector in Korean Trade Policy Formulation and Implementation

Because of rising public sensitivity to trade policy decisions, close communication and cooperation with industries, NGOs, and other interest groups are needed in the process of designing, negotiating, and implementing FTA policies. Figure 5 sets out various mechanisms through which cooperation and policy dialogue between the Korean government and private sector on FTA-related issues have been structured.

Figure 5. Public-Private Trade Dialogue and Cooperation in Korea



Source: IIT (2014).

According to the Trade Procedure Act, a Private Advisory Council for Trade Negotiations is established by MOTIE to provide advice and suggestions on the negotiation and implementation of FTAs. The Council deals with the overall strategy, feasibility, implementation, and impacts of FTAs. It is comprised of no more than 30 members, and the chair is elected by peers among Council members.

In order to strengthen the ties with Korean industries on matters of trade policy, MOTIE and the Korea International Trade Association (KITA) launched the Trade and Industry Forum (TIF) in 2013. The 22 subcommittees operating under this Forum gather opinions and suggestions from industries regarding FTAs and other trade issues.

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Annex: List of Korea's PTA Partners

Classification	Countries	Status	Focus
FTA in Effect (16 FTAs with 57 countries)	Chile	Took effect April 1, 2004	First FTA concluded A hub for promoting trade in Latin American market
	Singapore	Took effect March 2, 2006	Bridge-head for promoting trade in ASEAN market
	EFTA	Took effect September 1, 2006	Bridge-head for promoting trade in European market
	ASEAN	Took effect June 1, 2007	First FTA with world's large economic bloc
	India	Took effect January 1, 2010	BRICs, huge market
	EU (28countries)	Took effect July 1, 2011	World's largest economic bloc (based on GDP)
	Peru	Took effect August 1, 2011	Resource-affluent country Bridge- head for Latin American market penetration
	U.S.	Took effect March 15, 2012	Huge and advanced economy
	Turkey	Took effect May 1, 2013	Bridge-head for promoting trade in Europe and Central Asia market
	Australia	Took effect December 12, 2012	Resource-affluent country Major market in Oceania
	Canada	Took effect January 1, 2015	Advanced country of North America
	China	Took effect December 20, 2015	Largest trading partner of Korea (As of 2015)
	New Zealand	Took effect December 20, 2015	Major market in Oceania
	Vietnam	Took effect December 20, 2015	Third largest investment destination of Korea (As of September 2015)
	Colombia	Took effect July 15, 2016	Resource-affluent country Emerging market of Central and South American market
5 countries in Central America	Took effect October 1, 2019/ November 1, 2019	Creating a new market in Central America	

FTAs Signed (3 countries)	United Kingdom	Signed in August 22, 2019	Maintain continuity of trade relations between Korea and the United Kingdom after Brexit
	Israel	Entered into force on December 1st 2022	Creative economy model country
	Indonesia CEPA	Entered into force on January 1st 2023	Creative economy model country
FTAs under Negotiation (7 FTAs)	RCEP	Entered into force in January 2022	Contribution to economic integration in East Asia
	Korea-China-Japan FTA	November 27-29, 2019 16th Negotiation	Contribution to economic integration in East Asia
	Ecuador SECA	November 7-11, 2016 6th negotiation	Contribution to deepen economic relationships in Latin American market
	MERCOSUR	February 10-14, 2020 5th Negotiation	Largest market in Latin America
	Philippines	January 29-31, 2020 5th Negotiation	Young and dynamic market in Southeast Asia
	Russia	January 15-17, 2020 3rd Negotiation	Large emerging market/ Contribution to deepen economic relationships with Northern countries
	Malaysia	September 4-6, 2019 3rd Negotiation	Strengthening the institutional framework for expanding bilateral exchanges
FTAs with ongoing discussion to initiate FTA negotiation	Pacific Alliance	September, 2019 Discussion on negotiation rules and procedure	Emerging market in Latin America
	EAEU	September, 2019 Agreed to form a joint TF	Contribution to deepen economic relationships with CIS countries

Source: MOTIE.

