

Global Value Chains Diagnostic – Country Deep Dive

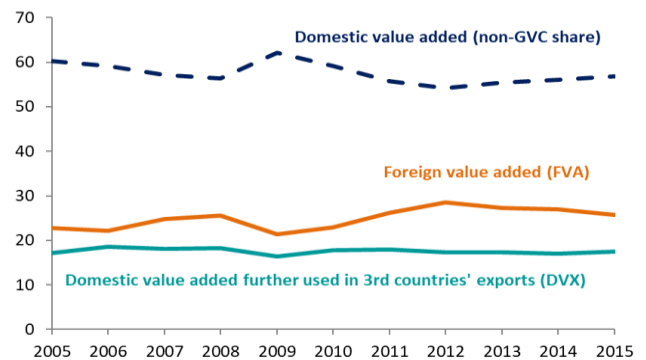
Morocco¹

- Morocco has developed strong value chains linkages over last 20 years
- The country exhibits high value chain integration in horticulture, chemicals, textiles, electrical machinery, automotive and aeronautic industries as well as in ICT and transportation services
- The EU (France, Italy, Germany and Spain) is the major trading and GVC partner of Morocco
- Morocco's reforms, investments and development strategies focusing on private-public ecosystems with linkages between foreign multinational and domestic firms have diversified the economy and improved overall trade performance

Mapping the integration in GVCs

At the global level, global value integration (GVCs) has stagnated in recent years, whereas most trade integration had happened before the financial crisis. Despite the global trend, Morocco has increased its participation in global value chains between 2005 and 2015 and 43 per cent of the value added of exports had value chain linkages in 2015 (Chart 1).² Morocco has strong backward linkages in GVCs, indicating that the economy relies on imported inputs to produce exports (around 25 per cent of exports value added in 2015). Around 18 per cent of domestic value added was exported to other countries, where it was used by foreign firms as inputs in their export production (forward linkages in GVCs).

Chart 1: Decomposition of gross exports (as per cent of total gross exports)



Sources: OECD (2018) and authors' calculations

Exports have evolved to be vital for the Moroccan economy. They accounted for over 30 per cent of GDP in 2015, whereas exports with value chain linkages made up 13 per cent of GDP.

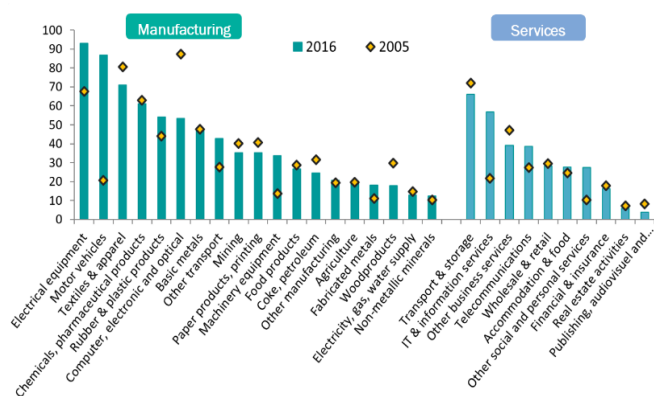
Morocco has several dominant export sectors, which show a high export intensity indicating that output is strongly driven by foreign demand. A high export intensity can be found in the manufacturing sector

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² Global value chain integration is the sum of foreign value added (FVA) & domestic value added embodied in 3rd countries' exports (DVX). The residual part of exports consists of domestic value added with no GVC linkages.

such as the electrical equipment, motor vehicles and textiles industries (Chart 2). Particularly, the automotive industry has significantly increased its export intensity of production from 20 per cent in 2005 to around 90 per cent in 2016. This highlights that almost the entire industry has shifted towards exports due to high foreign demand and strong trade linkages with Europe.

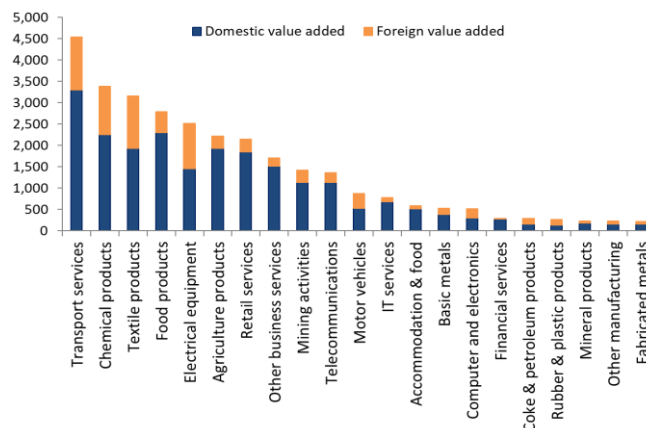
Chart 2: Export intensity by industry (as per cent of output)



Sources: OECD (2018) and authors' calculations

Large export sectors, such as the logistics, chemicals, textiles, electrical equipment and the automotive industries, have also a high content of foreign inputs in their exports (Chart 3). This indicates that it is vital for exporters to have access to intermediate inputs from foreign suppliers and partners in global value chain networks. Furthermore, ITC services, mineral and chemical, machinery and the automotive industries have seen the strongest annual growth rates in both domestic and foreign value added of exports over the period 2005-2015. It is important to highlight that domestic value added output has increased in absolute terms despite having a relatively smaller share in the value added of exports. This emphasises the complementarity relationship between domestic and foreign value added in the production of exports.

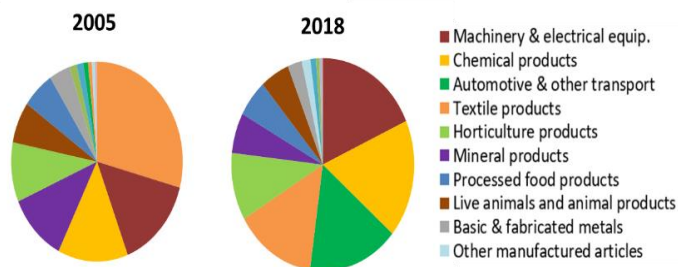
Chart 3: Decomposition of sector exports (in million US\$, 2015)



Sources: OECD (2018) and authors' calculations

Entering new industries through value chain integration in the automotive and aeroplane industries and further strengthening the exports of electrical equipment have helped Morocco to almost double the value of goods exports from around US\$ 14 billion in 2007 to almost US\$ 30 billion in 2018. Based on disaggregated trade data, mineral products (phosphoric acids) were the largest export product group in 2005, whereas motor cars exports have raised to the top and were the largest export product in 2018.³ This has also helped to diversify the export basket away from the strong reliance on exports of textiles in the early 2000s towards exports of electrical machinery, chemical products, cars and other transport equipment (Chart 4).

Chart 4: Export basket composition (as per cent of goods exports)



Sources: ITC (2018) and authors' calculations

³ Based on six-digit Harmonised Classification product code level of goods exports.

The European Union is the major trading partner and has strong value chain linkages with Morocco. The EU is both the most important destination for exports from Morocco as well as source of inputs used in Moroccan exports. In 2015, half of exported domestic value added of Morocco went to the EU and also almost half of foreign value added inputs in Moroccan exports were sourced from the EU. Inside the EU, France, Italy, Germany and Spain are the main trading partners, but value chain linkages with China, the US and Turkey have been on the rise over the past decade.

Trade and investment policies

Morocco has undertaken several horizontal reforms liberalising trade, promoting investment and improving the business environment by cutting red tape and simplifying business procedures, reducing tariffs and obstacles to foreign direct investment. Thus, the country has climbed from 128th place in 2010 to 60th place in 2019 in the World Bank Doing Business ranking. Customs duty on imports has undergone a major reform which has led to a decrease in both the number and the rates. The MFN tariff rate on imports fell from 20 per cent in 2009 to 12 per cent in 2015.

With more than ten agreements currently in force, Morocco is one of the countries that has concluded the largest number of free trade agreements. Morocco has free trade agreements with the EU, the United States, Turkey, the Agadir countries (Tunisia, Egypt, and Jordan), other Arab nations and with the entire African continent through ratification of the recent African Continental agreement.⁴ The important partnership with the EU, observed by the strong trade and investments flows, has been supplemented by a protocol on agricultural products in 2012. However, agricultural trade is still hampered by seasonal restrictions, minimum entry prices and other forms of quotas.

Integration in global value chains has been outlined in several medium to long-term industrial development strategies based on three main pillars of government policy; (i) State supply of integrated production facilities with the necessary infrastructure to private investors (integrated industrial parks), (ii)

Targeted financial measures and incentives to create a favourable export regime in selected free zones (iii) Public-private programmes to support labour force training, infrastructure and the adoption of international standards.

The development strategies also focused on key industries identified as engines for growth and development such as the automotive and aerospace industries. Also outlined were the need to improve the competitiveness of SMEs, to match training and education with private sector demand, to enhance the business climate and to attract foreign direct investments. The government has continuously emphasised the importance of value chain integration through the development of industrial ecosystems to promote interaction between foreign multinational companies and domestic supplier firms.

Obstacles and barriers

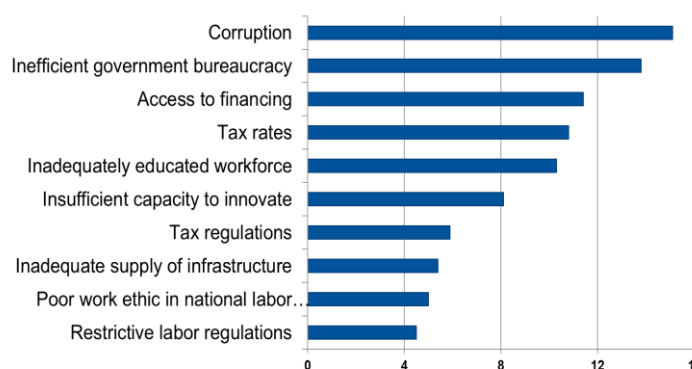
Despite the progress in integrating into global value chains, Moroccan firms still face obstacles and barriers in the process of participating in global value chains and exporting to international markets.

According to a business survey in 2017, Moroccan SMEs and the Chambers of Commerce representing the Automotive and Textiles industries identified high logistics costs, inefficient border agency and customs delays (pre-shipment inspections, informal payments, compulsory warehousing, and lack of transparency of procedures), high standards and quality norms in foreign market and inadequately educated labour force as major obstacles in their operations.

Furthermore, the World Economic Forum also ranks weak governance in form of a high perception of corruption and inefficient government bureaucracy as most problematic factors in doing business in Morocco in 2018.

⁴ The AfCFTA has been signed by 54 countries and ratified by 28 countries so far. However, the implementation has been postponed due to Covid-19.

**Chart 5: Most problematic factors doing business
(2018)**



Sources: World Economic Forum (2018)

Note: Higher ranking corresponds to most problematic factors based on WEF survey responses

Morocco has achieved to attract big multinational companies helping Moroccan firms integrating into automotive and aerospace value chains via targeted government support, the development of designated ecosystems and strong public-private partnerships ([Case Study Automobiles – Made in Morocco](#)). Today, Morocco is a car exporting country, 27th in global production of cars with around 440.000 units per year (on par with Hungary and Romania).

However, in order to increase opportunities for Moroccan firms to participate in global value chains in other industries, better access to finance and support for conformity assessments of products aligned with international standards is needed. This should help exporter to benefit further from the vast preferential market access and strategically located position of Morocco as hub between Europe, Africa and overseas.

Further information is available to supplement this country factsheet:

- GVC diagnostic – The Southern and Eastern Mediterranean region
 - GVC case study: Opportunities from diversification and promotion of resilience in GVCs
 - GVC case study: Automobiles – Made in Morocco
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