Inward Foreign Direct Investments to Morocco: Competitiveness and Dynamics

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Investments are likely to enhance economic growth and promote job creation. The mechanisms highlighted by different growth models may be different, but there is always an emphasis on the importance of investment. In many ways, foreign direct investment (FDI) complements local savings and investment, as well as being a source of job creation. In particular, for emerging and developing countries, foreign direct investment may have an added advantage of transferring technology from advanced countries (Grossman & Helpman, 1991). There is also the potential for technical know-how to disseminate into local economies through a process of knowledge spillover (Javorcik, 2004).

In this era of fragmented cross-border production networks, a country's capability to attract foreign direct investment can increase its export trade through participation in the global value chain. In addition, through the process of knowledge spillover, productivity dispersion tends to be reduced in sectors with a high penetration of foreign firms (Mona, 1993). Foreign direct investment can also have positive externalities by fostering the development of local industries through inter-firm linkages (Barrios, Görg, & Strobl, 2005).

Not surprisingly, various countries have undergone reforms in their bids to attract foreign direct investment (FDI). However, Africa still receives less than 5 percent of global FDI inflows (UNCTAD, 2016). Many factors influence delocalization and investment decisions of multinational firms. Morocco has performed remarkably well in attracting foreign investment over the last decade. In December 2016, Morocco was the second highest destination market of FDI projects in Africa, behind South Africa.

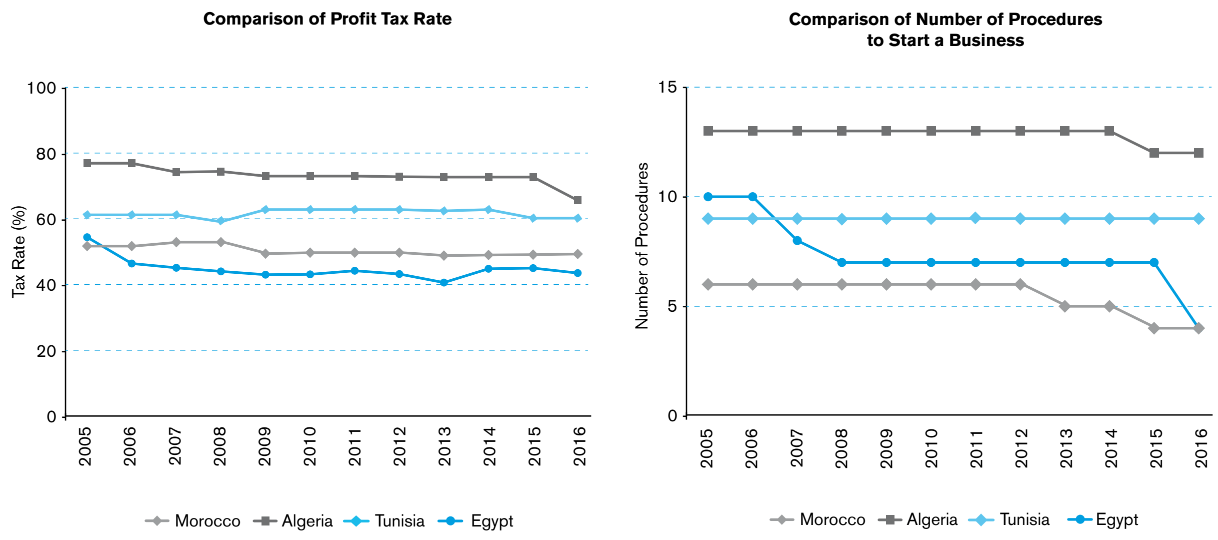
This article discusses inward foreign direct investment in Morocco from 2003 to 2016. It first highlights the policy actions and strategies that have increased Morocco's competitiveness compared to its North African neighbours, Algeria, Egypt, and Tunisia. The following section then presents key trends in FDI, the origins of FDI projects, as well as destination activities and locations.

Attracting FDI: Morocco in Perspective

Prior to the 1990s, the Moroccan economy was highly protected and mostly based on import substitution industrialization and agricultural self-sufficiency (Currie & Harrison, 1997). A series of economic reforms were undertaken by the government in the 1990s to modernize the Moroccan economy. In particular, one of these reforms was specifically aimed at reforming the Moroccan investment charter to attract foreign investment (World Bank., 1993).

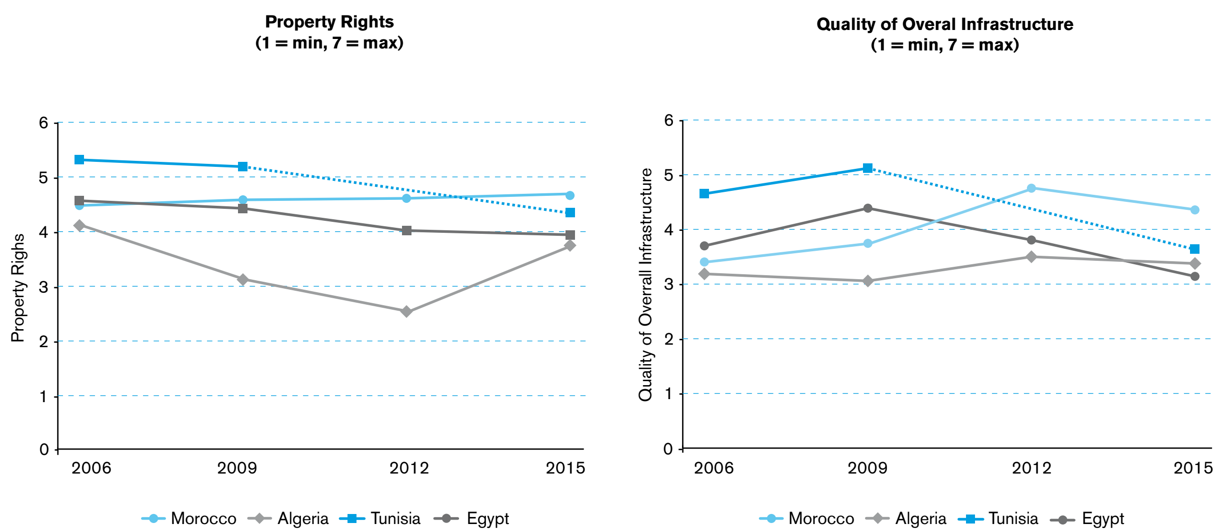
Besides the reform of the investment charter, the government undertook a massive privatization of state-owned enterprises to attract foreign investment. For example, in 2001, the government sold 35% of its stake in Maroc Telecom to Vivendi (a French company). Another significant action undertaken by the government to attract foreign investment were targeted Free Trade Agreements (FTAs) with major trading partners to enhance trade and investment. In particular, the *Agadir Declaration* signed between Morocco, Egypt, Tunisia, and Jordan; the *Association Agreement*, signed with the European Union; and a free trade agreement with the United States, were all important policy agreements for subsequent foreign investment in Morocco.

CHART 2 **Monetary and Non-Monetary Competitiveness to Attract FDI**



Correspondingly, the taxation system in Morocco was also considerably simplified in the late 1990s. Aware that low profit taxation can be correlated with inward FDI, the Government of Morocco simplified the country's tax code through the introduction of the General Tax Code. In particular, the adoption of the "investment charter" in 1995 provided Value-Added Tax exemption for five years for new investors. To put the comparative advantage of Morocco over its North African neighbours into perspective, Chart 2 compares the profit tax rate and number of procedures required to start a business from 2005 to 2016, using data from the World Bank's Doing Business Report (World Bank, 2017). It can be observed from the left panel that Morocco comes second to Egypt in terms of low profit tax rate. The right panel shows that Morocco has had the least number of procedures to undertake before potential investors start new enterprises.

CHART 3 **Infrastructure Quality and Property Rights Protection**



Note: Dotted line indicates missing data for Tunisia between 2009 and 2015.

TABLE 4 **Determinants of FDI Destination Choice**

Motives	Projects	% of FDI Projects	Companies	% of Companies
Domestic market growth potential	51	40.1	48	41.7
Proximity to markets or customers	37	29.1	34	29.6
Regulations or business climate	31	24.4	28	24.3
Skilled workforce availability	30	23.6	28	24.3
Lower costs	20	15.7	19	16.5
Infrastructure and logistics	12	9.4	11	9.6
IPA or government support	8	6.3	7	6.1
Industry cluster / Critical mass	8	6.3	8	7.0
Attractiveness / Quality of Life	5	3.9	4	3.5
Language skills	5	3.9	5	4.3
Other motives	11	8.7	11	9.6

Source: fDi Markets (www.fdimarkets.com)

Using data from the Global Competitiveness Index published by the World Economic Forum, we can compare the competitiveness performance of Algeria, Egypt, Morocco and Tunisia (World Economic Forum, 2016). Chart 3, shows that, Morocco has also taken steps to improve its infrastructure development and quality of institutions. In particular, port infrastructure was considerably improved following extensive investment in the Tangier-Med port. Undoubtedly, having quality infrastructure and protected property rights is likely to boost investor confidence.

Lastly, Table 4 shows that the potential of the domestic market to register growth following a series of reforms is the number one motive for investment as reported by firms undertaking investments in Morocco. Its proximity to markets, (particularly Europe), the business climate, and availability of skilled workforce are next in line as the main determinants of choosing Morocco as a destination market.

CHART 4 **FDI Dynamics in Morocco**

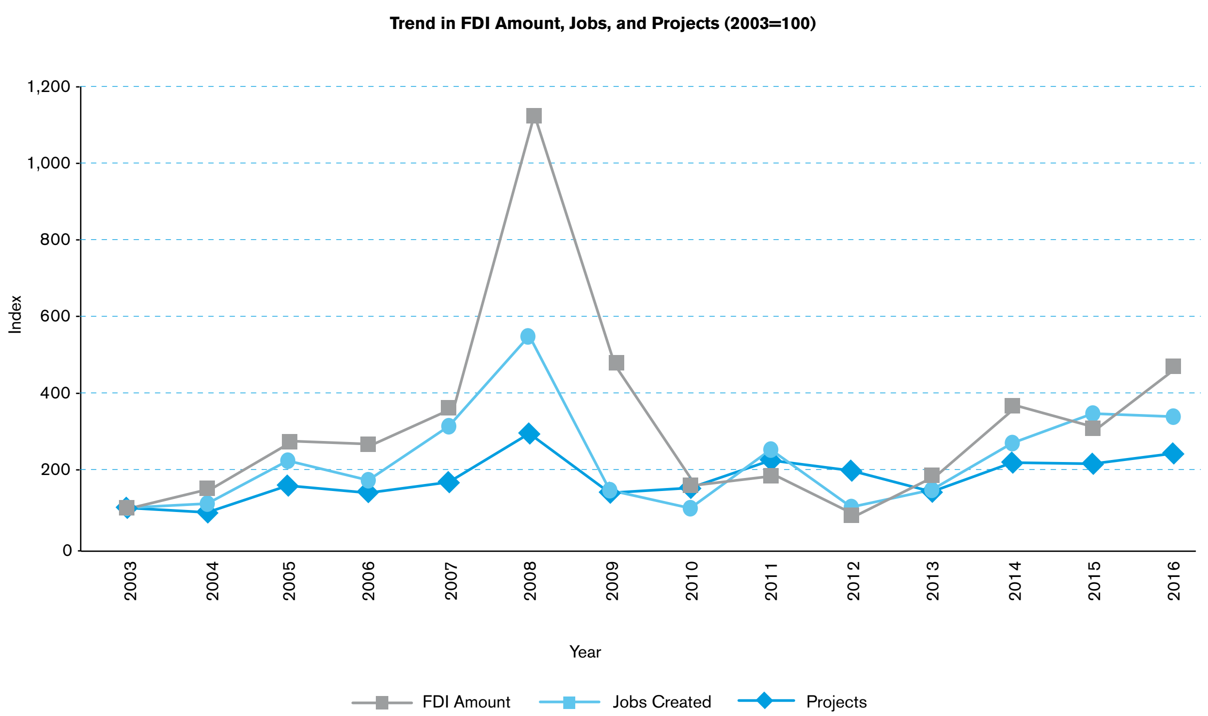
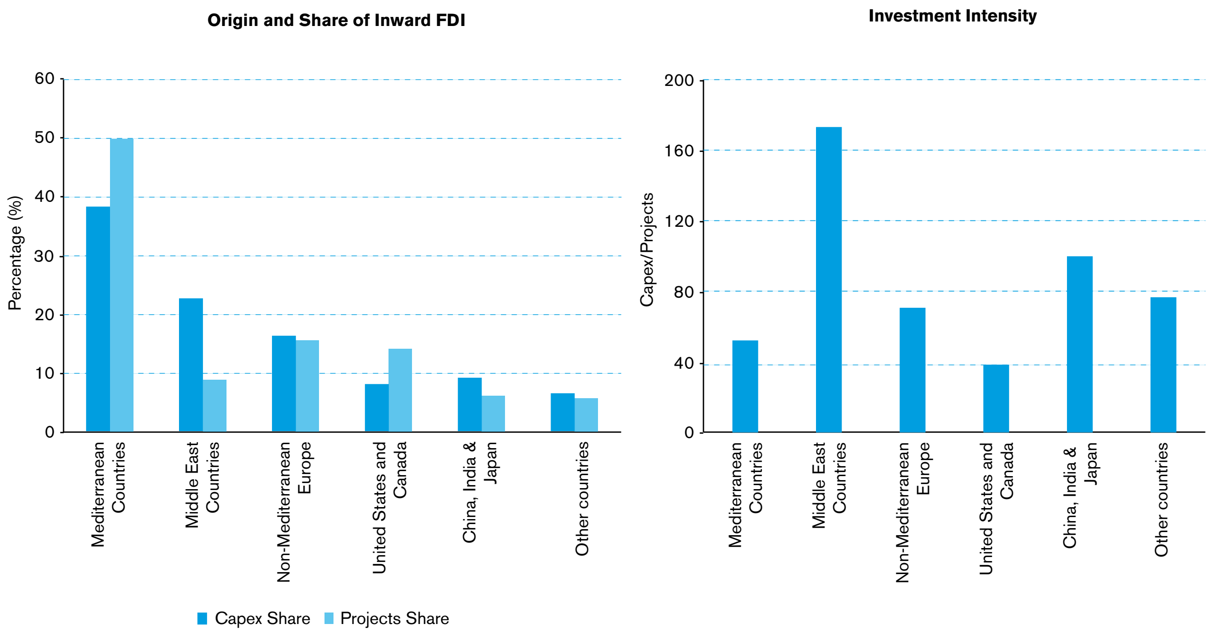


CHART 5 **Sources and Intensity of FDI to Morocco (2003 – 2016)**



Dynamics of Morocco's Inward FDI

Morocco recorded 817 FDI projects from 2003 to 2016; bringing in capital investments of €55.3 billion, as well as creating 231,747 jobs (Financial Times Ltd, 2017). Chart 4 presents a summary of the dynamics of key FDI indicators, with 2003 set as the base year to track variations in the indicators. It can be observed that the three indicators registered a generalized increase almost throughout the period, with the exception of a few cases, which registered an overall decrease with respect to 2003. Surprisingly, in the midst of the global financial crisis in 2008, Morocco registered its highest peak in FDI capital investments, with a growth rate of 970 percent with respect to 2003. On a year-on-year basis, FDI capital investments increased by approximately 208% in 2008, as compared to 2007.

The close economic relation between Morocco and its Mediterranean neighbours is underscored by the share of capital investment originating from Mediterranean countries, as well as the share of the number of FDI projects. Out of the total €55.3 billion invested, approximately €21.1 billion originates from: France,

TABLE 5 **Composition of FDI by Business Activity**

Business Activity	No of projects	Jobs Created		Capital Investment		Capital/Employment Ratio
		Total	Average (€ m)	Total	Average (€ m)	
Manufacturing	235	119,196	507	17,017.6	72.4	0.14
Sales, Marketing & Support	169	6,159	36	2,157.5	12.8	0.35
Business Services	133	6,473	48	1,389	10.4	0.21
Construction	91	63,487	697	19,191	210.9	0.30
Logistics, Distribution & Transportation	46	8,104	176	3,646.2	79.3	0.45
Customer Contact Centre	32	11,264	352	233.1	7.3	0.02
Design, Development & Testing	25	6,711	268	1,681.1	67.3	0.25
Education & Training	19	996	52	196.7	10.3	0.20
Electricity	18	1,514	84	5,740.1	318.9	3.79
Headquarters	8	1,472	184	153	19.2	0.10
Other business activities	41	6,371	155	3,895.3	95	0.61
Total	**817**	**231,747**	**283**	**55,300.80**	**67.70**	

TABLE 6 Composition of FDI by Destination State

Destination State	No of projects	No. of Companies	Jobs Created		Capital Investment	
			Total	Average (€ m)	Total	Average (€ m)
Casablanca	310	283	50,598	163	9,381.3	30.3
Tangier-Tetouan	129	113	60,454	468	11,824.1	91.7
Rabat-Sale-Zemmour-Zaer	64	55	22,058	344	4,496.8	70.2
Marrakech-Tensift-El Haouz	37	35	14,802	400	3,840.6	103.8
Souss-Massa-Draâ	21	20	3,327	158	863.8	41.1
Gharb-Chrarda-Béni Hssen	15	12	10,091	672	953.6	63.6
Fes-Boulmane	10	9	1,692	169	542.3	54.2
Laâyoune-Boujdour-Sakia El Hamra	9	7	1,045	116	861.8	95.8
Oriental	8	7	786	98	770.5	96.3
El Jadida	6	6	676	112	1,596.5	266.1
Other destination states	34	31	20,563	604	4,152.1	122.1
Not Specified	174	170	45,655	262	16,017.3	92
Total	**817**	**641**	**231,747**	**283**	**55,300.8**	**67.7**

Spain, Italy, and Turkey, accounting for 38.12% overall. Within this group, France is the largest contributor to FDI capital investment with €11.54 billion, accounting for 54.71% of the Mediterranean group of countries and 20.86% of the total amount. In the same way, out of the total 817 projects, 407 – accounting for 49.82% - originates from the Mediterranean countries.

Middle East countries – United Arab Emirates, Saudi Arabia, and Qatar – come next in terms of capital invested, although they make up roughly 8 percent of the total number of projects. As can be observed in panel (b) of Chart 5, this translates into a higher investment intensity for Middle East countries as compared to other regions. Non-Mediterranean European countries, made up of the United Kingdom, Ireland, Germany, Denmark and Portugal, are the third highest contributors of capital investment to Morocco. The United States and Canada make up 7.91% of capital investment, but with a diverse portfolio in 115 FDI projects. Lastly, China, India and Japan (CIJ) collectively invested €4.9 billion accounting for approximately 9 percent of total FDI. The total number of projects the CIJ group of countries was engaged in makes up 6% of the total number of FDI projects. China is the biggest investor within this group.

Table 5 presents the breakdown of FDI by business activity. Inward FDI to Morocco is generally concentrated in five business activities, with the top five accounting for 82.50% of all projects. The manufacturing sector accounts for 28.8% of all FDI projects, with a total capital investment of €17 billion generating the highest number of jobs. Among the top five, construction accounted for the highest capital investment, generating the highest average number of jobs per project. Surprisingly, electricity, which is outside of the top five sectors, registers the highest capital employment ratio for each unit of capital invested.

It is not only destination sectors that are concentrated, but also destination states (or cities). Casablanca state alone accounts for 37.94% of all projects, representing 44% of all firms undertaking FDI in Morocco. Tangier-Tetouan is the second highest state with 129 FDI projects out of 817. The two leading states account for 53.73% of the FDI projects. At the city level, Casablanca and Tangier account for 48.23% of all FDI projects, indicating little dispersion between the two states.

To conclude, without the pretext of drawing statistical inference, this article compares the relation between the competitiveness score and the number of inward FDI projects for years where variable data were available. A simple sample correlation between the overall infrastructure quality score and number of FDI projects yields 0.87, while the correlation between property rights and FDI projects yield 0.85. Whilst it is important to stress that correlation does not mean causality, the analysis confirms a correlation between inward FDI and competitiveness.

Conclusion

This article discussed Morocco's competitiveness to attract foreign direct investment and the dynamics of its inflows from 2003 to 2016. The rise of Morocco to become Africa's second largest recipient of FDI owes to a combination of factors. Among the group of North African countries, Morocco has implemented a series of economic reforms to gain competitive advantage.

High monetary and non-monetary barriers are likely to discourage prospective investors, inhibiting FDI inflows to any economy. Likewise, infrastructure quality, as well as private property rights, influence a foreign investor's choice of destination country. Given the high levels of foreign investments, putting the necessary steps in place to reduce barriers and increase a country's competitiveness is likely to boost investor confidence.

The growing number of FDI projects in Morocco rightly suggests that investors respond to competitiveness. The concentration of FDI sources from Mediterranean countries also highlights the importance of commercial relations between Morocco and its Mediterranean neighbours. Furthermore, the concentration of FDI projects in Casablanca and Tangier-Tetouan states recalls the correlation between infrastructure quality and FDI projects. Therefore, if infrastructure quality was improved in other parts of the country, this would reduce the skewness of FDI project distribution within Morocco.

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