



ASSESSMENT OF
MOROCCO'S TECHNICAL
ASSISTANCE NEEDS IN
NEGOTIATING AND
IMPLEMENTING A FREE
TRADE AGREEMENT WITH
THE UNITED STATES



SUPPORTED AND FUNDED BY THE TRADE CAPACITY BUILDING PROJECT
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

ANALYSIS AND REPORT PRODUCED BY NATHAN ASSOCIATES INC.

Assessment of Morocco's Technical Assistance Needs in Negotiating and Implementing a Free Trade Agreement with the United States

Supported and Funded by the Trade Capacity Building Project
U.S. Agency for International Development

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The opinions expressed herein are those of the authors and do not necessarily reflect the views of the United States Agency for International Development.

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Preface

The purpose of this USAID-funded Trade Capacity-Building (TCB) Needs Assessment is to identify Morocco's trade-related needs and prioritize among those needs as part of a technical assistance strategy to be considered by the Government of Morocco, USAID, other U.S. Government agencies, and other development donor organizations in Morocco.

Nathan Associates Inc. conducted the needs assessment as part of USAID's TCB Project. Members of the TCB team included Lynn Salinger, Team Leader and Senior Economist with Associates for International Resources and Development (lsalinger@aird.com); Bryan Samuel, Trade Expert consultant with Nathan Associates (tcb@nathaninc.com); Samy Nadifi, Private Sector Development Specialist with Nathan Associates (tcb@nathaninc.com); and Saâd Belghazi, Professor, Institut National de Statistiques et d'Economie Appliquée (belghazi@mtds.com). The team was joined in Morocco by Mr. Tham Truong, principal economist in USAID's ASIA/Near East Bureau, who provided guidance on USAID programs and priorities. Erin Endean, Chief of Party for the TCB project, directed the needs assessment (eendean@nathaninc.com).

The TCB team was asked to

- Identify TCB constraints that Morocco may face in negotiating a free trade agreement (FTA) with the United States;
- Identify economic policy and development constraints that Morocco may face in implementing FTA commitments;
- Identify and prioritize potential TCB assistance activities from all sources to address such constraints; and
- Estimate resource requirements and timing for recommended TCB assistance activities.

The TCB team visited Morocco October 8-23, 2002, and met with representatives of a broad cross-section of the Moroccan government and private sector in Rabat, Casablanca, Agadir, and Tangiers. Government representatives included members of the Ministries of Foreign Affairs and Cooperation, Commerce and Industry, Agriculture, Economy and Finance,

Employment, General Government Affairs, Fisheries, and Environment. A list of contacts is provided in Appendix A.

USAID/Morocco's existing program encompasses some important aspects of TCB. Several contracts have been awarded recently in areas related to TCB, such as commercial law and justice reform and tourism sector support. These activities, however, are not linked to FTA support in a comprehensive strategic framework that will drive the future USAID/Morocco program. The Mission's concept paper submitted to Washington in November 2002 will lead to the development of a strategy for 2004 to 2009, during which time FTA support will be the program's centerpiece.

An outline of the team's findings was discussed with Moroccan and U.S. government officials at end-of-mission debriefings in Rabat October 23. The report has benefited from several rounds of review with U.S. and Moroccan government representatives. This assessment is the team's final report to the Government of Morocco's FTA Working Group at the Ministry of Foreign Affairs and Cooperation and to USAID.

The Morocco TCB team is grateful for the strong support of the Moroccan Ministry of Foreign Affairs and Cooperation, the Department of Foreign Trade of the Ministry of Commerce and Industry, USAID, and the FTA Working Group at the U.S. Embassy. The team is also grateful for the many Moroccan government and private sector representatives who graciously shared their time and insight.

Executive Summary

President Bush and King Mohammed VI announced their decision to pursue a bilateral Free Trade Agreement (FTA) April 23, 2002. In notifying Congress of the President's intention to begin formal negotiations, Ambassador Zoellick linked the FTA to support for the significant economic and political reforms underway in Morocco, to the enhancement of Moroccan efforts to expand trade and attract new investment, and to the promotion of sustainable development. He noted that the U.S. Administration intends "to target ongoing development assistance and trade-related technical assistance to help Morocco follow through on the commitments it will make as part of the FTA." The purpose of this report is to identify Morocco's trade-related needs and prioritize them as part of a technical assistance strategy for the consideration of the Government of Morocco, USAID and other U.S. government agencies, and international development organizations.

Morocco is a member of the World Trade Organization and participates in the current round of multilateral negotiations. It has successfully concluded an Association Agreement with the European Union and free trade agreements with the European Free Trade Association and a number of states in the region. It is likely that the Morocco-U.S. FTA will include disciplines that are more extensive than ones contained in these agreements, so negotiation and implementation of the FTA will pose fresh challenges for Morocco. The broad nature of the FTA negotiations will require broad policy review and preparation, most importantly for opening agriculture markets. Efficient implementation of the agreement's obligations will affect the operations of many parts of the Moroccan government. To take advantage of the FTA's potential to increase exports of goods and services, the Moroccan private sector must identify opportunities quickly, form business partnerships with U.S. distributors, and produce to U.S. standards. The FTA can motivate fresh domestic investment and serve to make Morocco a more attractive home for foreign direct investment. Facilitative regulations and an improved business environment in Morocco can help realize that potential. Innovative policy responses also will be required to address pressures for economic adjustment arising from the FTA, especially in Morocco's rural areas.

The likely scope of the agreement, coupled with the willingness of the United States and the international community to provide development assistance, can help to improve the quality

of life in Morocco. In particular, negotiation and implementation of the FTA can further Morocco's efforts to promote sustainable development and environmental protection. The FTA can also bolster Moroccan policies to improve worker protections and eradicate child labor.

Negotiating the FTA

An examination of the U.S. Administration's negotiating authority, U.S. preferential trade programs, and other bilateral trade agreements will help Moroccan policymakers know what to expect from the negotiations. In addition, with the prospect of no tariffs on agricultural imports, Moroccan policymakers must make complicated and difficult decisions on agricultural sector reform before the negotiations. Alternative reform paths toward the liberalization of agricultural inputs can have a major effect on production costs and consumer prices; policymakers will face similar dilemmas on reform in the services sector and the labor market. To choose the best reform path, policymakers need to understand the economic effects of alternative reforms in order to be able to judge their acceptability to Moroccan stakeholders.

Communication with the Moroccan private sector, nongovernmental organizations, and academic circles will be indispensable to policy reform and the negotiating process. Public advice can inform negotiators of problems exporters have had cracking the U.S. market; alert policymakers to the political repercussions of various reform scenarios; help policymakers set priorities for environmental protection and labor practices; and give the broader public a stake in the negotiations, thereby building support for the FTA and for reform. Firms also will be able to get a head start in positioning themselves quickly to take advantage of market opening opportunities and in planning new investment.

Because of the breadth of the FTA, Morocco will need to manage a large interagency team of negotiators, some of whom will not have had experience with U.S. counterparts. Overall, the team will benefit from a greater understanding of the U.S. trade formulation process and of the domestic pressures facing U.S. negotiators. Moroccan officials have already expressed keen interest in certain areas: rules of origin, agriculture and related standards and safeguards issues, textiles, services, e-commerce, and environment.

Implementing the FTA

As a result of commitments undertaken in the FTA, Morocco will need to pass new implementing legislation, conform existing legislation, and take certain regulatory actions. Much of the burden of administering the FTA will fall on Moroccan customs authorities. The Moroccan Customs Administration has taken major steps to modernize in recent years,

though private sector trade facilitators have yet to catch up, and customs officials anticipate developing excellent working relations with the U.S. Customs Service. Morocco can anticipate keen pressure from the United States to enforce proactively the FTA's obligations. Authorities may want to seek assistance in facilitating that enforcement, particularly through training in areas such as enforcement of intellectual property rights and compliance with laws and regulations affecting competition, environmental protection, and workers' welfare. Government procurement disciplines could apply new rules to a number of Moroccan entities, giving rise to great demand for training and computerized systems. FTA provisions on dispute settlement, safeguards, and institutional arrangements will probably require organizational change within the Moroccan government.

Realizing the Potential of the FTA

Moroccan authorities anticipate that sectors with the highest export potential are labor-intensive manufactures such as textiles, electronics, and automotive components; service sectors such as tourism and information technology; and agribusiness and fisheries. To seize new FTA market access opportunities early and effectively, the Moroccan private sector must better anticipate and identify new export markets, think creatively about market positioning and appropriate channels of distribution, and find ready access to working and investment capital. Better marketing capabilities depend on market analysis and in part on relationships between Moroccan professional associations and industry groups in importing markets. Moroccan firms should also explore new e-commerce models for product sales and delivery.

Establishing market information systems for agribusiness especially could help smaller Moroccan producers identify market and export opportunities. Potential exporters must first comply with various food safety rules and sanitary and phytosanitary (SPS) requirements. The Moroccan government is seeking ways to educate producers and to improve their compliance, to upgrade integrated pest management techniques, to train more inspectors in risk assessment procedures, and to update domestic regulations. Acquisition of transportation and computer equipment would improve access to rural areas and communication between inspectors in the field and at ports with authorities at the Ministry of Agriculture. Morocco also seeks help in evaluating its cold chain facilities, especially for plant quarantine.

Potential Moroccan exporters of manufactured goods must meet U.S. safety and design standards and labeling requirements. Morocco is seeking ways to better inform its firms of these standards and to introduce domestic standards for a broader array of goods.

The Moroccan government recently established an office to address problems facing small- and medium-sized enterprises (SME). Because of government demands on credit markets to finance deficits and because of a highly risk-averse commercial banking sector, SMEs have difficulty finding financing for working capital and capacity expansion to take advantage of

new export opportunities. Morocco needs assistance to model new, targeted innovative financing programs.

Morocco seeks new U.S. and other foreign direct investment associated with the FTA. Now is the time to begin promotion activities so that new investment can become productive as soon as the agreement goes into effect. The Moroccan government has begun to address policies that hamper investment and has taken major strides in establishing Regional Investment Centers and effective commercial courts. Certain policies still complicate the investment environment, such as land titling rules and a highly valued currency. Moroccan policies aimed at broadening education opportunities and improving worker development and technical training will enlarge the labor pool available to new investors. Confirming Morocco's commitment to intellectual property rights through legal steps, such as providing data protection for patent applications, could help attract particular investors, such as pharmaceutical firms.

Facing the Challenges of the FTA

Over time, reduced tariffs on basic food and agricultural commodities will generally lower prices for consumers, including livestock and poultry producers, and increase domestic price variability for food and agricultural products. Lower prices also mean less producer profit for many crops currently grown and potentially less demand and so lower wages for farm labor. Morocco's rural sector could face a difficult transition as it moves to different patterns of production. Moroccan authorities have sought support from international development agencies to explore ways to address the shift out of agriculture, which currently occupies 40 percent of Morocco's workforce. Rural income support schemes and other sources of employment, such as rural tourism, need further study. Education and training programs will facilitate the transition to employment in the manufacturing and services sectors.

Moroccan authorities want to ensure that FTA-generated economic growth does not degrade environmental quality. An environmental impact assessment of the agreement can help negotiators and regulators pinpoint vulnerabilities. The FTA negotiation is an opportunity for Moroccan officials to discuss assistance possibilities, particularly for designing environmental laws, regulations, and enforcement procedures; identifying training needs; and evaluating natural resource and natural habitat protection policies.

Similarly, FTA-generated economic growth, combined with the right policies, can promote improvements in worker protection. Moroccan authorities may want to explore ways to bolster enforcement of child labor laws and programs aimed at educating the public about the problems of child labor. Dialogue between Moroccan and U.S. officials will provide opportunities for regulators to discuss enforcement practices that increase the on-the-job health and safety of the workforce.

Recommendations for Building Trade Capacity

Morocco has trade capacity-building (TCB) needs for each stage of the FTA process—preparing to negotiate, implementing FTA-related commitments once negotiations are concluded, responding to commercial opportunities created by the FTA, addressing macroeconomic and business environment challenges, and preparing the rural sector for economic transition. Some TCB activities recommended in this report involve foreign assistance; others involve activities that may best be undertaken by the Government of Morocco without foreign facilitation; and still others may benefit from a blended approach. Recommended activities are grouped by “high priority” and “medium priority,” with indicative timeframes for each activity. Indicative resource requirements on the order of \$39.5 to \$48.3 million are estimated to support the entire program of activities. This estimate does not include resources to implement several activities, evaluations, or assessments that are recommended (e.g., workforce development program, rural social safety net program, agricultural income support program).

1. Introduction

President Bush and King Mohammed VI on April 23, 2002, announced their decision to pursue a bilateral Free Trade Agreement (FTA).¹ Pursuant to the Bipartisan Trade Promotion Authority Act of 2002, Ambassador Zoellick notified Congress on October 1, 2002, of the President's intention to initiate formal negotiations with Morocco and of U.S. objectives for the negotiations (see sidebar). Ambassador Zoellick linked the FTA to broader development objectives: "a U.S.-Morocco FTA will support the significant economic and political reforms underway in Morocco, enhance the Moroccan government's efforts to attract new trade and investment, and promote sustainable development." To that end, he notes that "the Administration therefore intends to target ongoing development assistance and trade-related technical assistance to help Morocco follow through on the commitments it will make as part of the FTA."²

Morocco, a modernizing and tolerant Arab society, has enjoyed a partnership with the United States for more than 200 years—a partnership strongly reinforced after September 11, 2001. Parliamentary elections held in September 2002 were hailed as "free and fair" by observers. In his October 2002 speech to the opening session of the new Parliament, King Mohammed VI referred to employment creation as the primary concern of "the Moroccan family," necessitating a comprehensive strategy of investment promotion, sound regulatory conditions (especially with respect to the Labor Code), and education and training reform. The domestic media generally consider Morocco's new Prime Minister a pragmatic politician whose business background will make him sympathetic to reforms needed to improve Morocco's

U.S. Government objectives for FTA negotiations with Morocco cover the following subjects:

Trade in goods
Customs matters, rules of origin, enforcement cooperation
Sanitary and phytosanitary measures
Technical barriers to trade
Intellectual property rights
Trade in services
Investment
Electronic commerce
Government procurement
Transparency and anti-corruption
Dispute settlement
Trade remedies
Environment
Labor (including child labor)

¹ See <http://www.whitehouse.gov/news/releases/2002/04/20020423-7.html>

² Ambassador Zoellick's notification letter is posted on the website of the Office of the U.S. Trade Representative. See <http://www.ustr.gov/releases/2002/10/index.shtml>.

business environment. Morocco's philosophically diverse political parties have reacted positively to the prospect of a bilateral FTA.

Morocco's expectations for the FTA's potential to open new markets, attract new investment, and create new economic opportunities are running high. Despite the EU-Morocco Association Agreement, further expansion of market access to Europe for key Moroccan exports, including citrus, certain fresh vegetables, and apparel, is currently limited. A complex quota system restricts most horticultural products by quantity and season. Morocco therefore considers access to U.S. markets for agricultural and manufactured goods, as well as services, a key component of its economic diversification strategy. Satisfying the political demands of legislative passage and popular acceptance of the FTA in both countries will require swift demonstration of tangible benefits to both sides. To this end governments must promote vigorously the FTA's commercial opportunities.

The purpose of this report is to identify Morocco's trade-related needs and prioritize them as part of a technical assistance strategy to be considered by the Government of Morocco, USAID and other U.S. government agencies, and other development donor organizations in Morocco.³ In Chapters 2, 3, and 4 we identify the trade capacity needs of Morocco's public and private sectors as they prepare to negotiate the FTA, implement FTA commitments, and respond to new commercial opportunities. In Chapter 5 we describe formidable macroeconomic and commercial environment challenges to realizing the FTA's potential benefits. In Chapter 6 we discuss how Morocco will need to prepare for the economic adjustments caused by the FTA. Conclusions about resource requirements are presented in Chapter 7.

Throughout the report we offer specific recommendations for immediate implementation in early 2003 as negotiations begin, for implementation through the negotiating process, and for the long term. High priority items are those that either affect negotiations directly or are critical to making markets work in Morocco.

³ A recent report on the types of U.S. Government trade capacity-building (TCB) initiatives provided throughout the world distinguishes three types of assistance. Assistance "beyond the border" may include promoting awareness of and support for pursuit of foreign trade agreements, promoting compliance and implementation on the part of government officials and private sector and civil society representatives, marketing, meeting foreign market standards, and so forth. Assistance at the border addresses trade policy reform and trade policy enforcement, trade facilitation, and customs. Assistance "behind the border" may involve activities related to human resources and labor standards, financial sector development, trade-related infrastructure development, environment, competition policy, agricultural development, services, and governance and interagency coordination. As many as 30 U.S. Government agencies are involved in such services. These include the U.S. Departments of Agriculture, Commerce, Energy, Justice, Labor, State, Transportation, Treasury, the U.S. Customs Service, USAID, Environmental Protection Agency, Export-Import Bank, Federal Trade Commission, Food and Drug Administration, Office of the U.S. Trade Representative, Overseas Private Investment Corporation, Peace Corps, Small Business Administration, and Trade and Development Agency. See USAID, *United States Government Initiatives to Build Trade Related Capacity in Developing and Transition Countries* (Washington, D.C.: October 2001), http://www.usaid.gov/economic_growth/tradereport/index.html.

Appendix A lists the TCB team's contacts; Appendix B lists websites related to U.S. trade agreements and preferential trade schemes; and Appendix C summarizes trade-related technical assistance being provided by development agencies operating in Morocco.

2. Preparing to Negotiate the Free Trade Agreement

Moroccan negotiators are looking for an appropriate negotiating reference. Provisions of the U.S.–Jordan FTA might serve in part as a model, but Moroccan officials are keenly interested in the outcome of the United States’ bilateral negotiations with Chile, which has a highly protected grains sector but enjoys considerable U.S. market access for horticulture. Because the FTA will require a number of policy reforms, Moroccan officials need to begin building consensus for a reform agenda among government ministries and among private stakeholders. Moroccan negotiators also need to familiarize themselves with U.S. policy objectives as contained in legislation, suggested in private sector submissions, and embodied in other bilateral agreements and preferential trade schemes. In this way experienced Moroccan negotiations can project differences from their earlier bilateral agreements and so develop effective negotiating strategies.

Building Consensus for the Economic Reform Agenda

Moroccan policymakers are seeking to broaden their exporters’ access to foreign markets through an FTA with the United States. Given their experience opening key domestic markets to competition—telecommunications, electricity, transportation, and other service industries—they understand how such reform stimulates investment, strengthens competitiveness, encourages economic growth, and improves livelihoods. They also recognize that further economic modernization will shift labor out of agriculture into industry and service sector jobs.

To prioritize a trade policy agenda before FTA negotiations, Morocco needs consensus on the reforms that will be necessary after negotiations. Consensus on reforms can be built by cultivating understanding of their impact and through an outreach campaign that explains the FTA and accompanying reforms to communities, firms, and civil society groups. An outreach campaign will also allow negotiators to better understand the trade-related challenges that stakeholders already face.

UNDERSTANDING THE IMPACT OF REFORM

Moroccan officials have identified the need for deeper understanding of the “big economic picture” as their highest and most immediate priority. Decision makers seek insights into the shift of labor and capital from traditional agriculture into labor-intensive, high value, modern agriculture, and into rural and non-rural non-agricultural sector jobs. They want to understand how these resource shifts will affect the Moroccan economy, government budget, society, regions, and natural resources.⁴ In addition, they have expressed a desire to assess Morocco’s present competitive advantages and how its future advantages in the rural and non-agricultural (e.g., labor-intensive manufacturing, services) growth sectors can be enhanced so they can develop trade negotiation positions.⁵

INVOLVING THE PRIVATE SECTOR AND CIVIL SOCIETY

As late as October 2002, private sector representatives and broader civil society in Morocco were largely unaware of the U.S. FTA. Of the private sector organizations that the TCB assessment team visited, only the Confédération Générale des Entreprises du Maroc (CGEM) had been contacted by the Ministry of Commerce and Industry’s Department of Foreign Trade for comments on the FTA. No sectoral impact studies or identification of opportunities had been conducted.

Moroccan officials might consider greater formalization of their outreach programs to the private sector and to non-governmental organizations (NGO). Giving members of the private sector a stake in the development of offensive and defensive negotiating positions based on their own analysis of export potential will strengthen domestic policy formulation and help build broad approval for the FTA. Early consideration of the concerns of NGOs, such as consumer groups, labor unions, and environmentalists, and seeking their involvement in framing negotiating positions will promote understanding and support.

Private sector input can help identify market access problems that exporters experience in entering and succeeding in the U.S. market early on. Finally, involving the private sector gives Moroccan exporters a head start on the new “rules of the game” and allows them to respond quickly to new opportunities and to evaluate capital investment decisions effectively.

⁴ Similar concerns were raised in Mexico during the two to three years of negotiations for the North American Free Trade Agreement. “There was probably great fear that in agriculture, particularly in the corn sector, rapid liberalization could cause major labor displacement,” writes Nora Lustig in *Mexico: The Remaking of an Economy*, 2nd edition (Washington, D.C.: Brookings Institution, 1998), p. 117. Modeling exercises developed between 1990 and 1992 allowed Mexico to simulate the possible effects of alternative liberalization schemes on corn producers, disaggregated by region and class of producer.

⁵ The World Bank has had a long involvement in similar quantitative analytic exercises in Morocco, and may be a source of support for a more elaborate modeling exercise here.

Demystifying U.S. Trade Policy

Moroccan trade officials have extensive negotiating expertise. They have concluded an Association Agreement with the European Union and free trade agreements with the European Free Trade Association and a number of states in the region. Morocco hosted the 1994 signing of the final act embodying the results of the Uruguay Round of multilateral trade negotiations and participates in multilateral negotiations at the WTO. Nevertheless, conclusion of an FTA with the United States will have distinctive characteristics that Morocco should anticipate as it prepares for negotiations.

Moroccan officials will benefit from a thorough grasp of the domestic demands and constraints facing their U.S. counterparts. They should understand the roles and interests of those involved in U.S. trade policy formulation: administration officials, Congress and staff, the private sector, NGOs, and academic research institutions or private think tanks.⁶ To understand the direction of recent U.S. trade policy, Moroccan officials should review relevant U.S. positions and stated goals for current multilateral negotiations.⁷ Moroccan officials should also bear in mind U.S. negotiating objectives and procedures enacted in the Bipartisan Trade Promotion Authority Act of 2002 (H.R. 3009, sections 2101 et seq.).

Identifying Negotiating Options

The FTA with the United States will differ markedly from other Moroccan preferential trade agreements. Rules to determine whether traded goods qualify for preferential treatment (rules of origin) are generally specific to each agreement. Morocco's other preferential agreements do not include disciplines on services, government procurement, protection of intellectual property, or e-commerce, nor do they "go to zero" for trade in agriculture. In addition, Morocco should anticipate that the United States will press to include certain labor- and environment-related provisions in the FTA. Activities highlighted elsewhere in this report will contribute significantly to identification of broad strategic objectives for the negotiations. These include (1) consideration of the relative competitiveness of Moroccan exports compared with those of other suppliers to the United States, especially suppliers of textiles and apparel, horticulture, and processed foods; and (2) a long-term strategy for modernizing Morocco's agriculture sector.

⁶ An outstanding source of general information is I.M. Destler, *American Trade Politics*, 3rd edition, Washington: Institute for International Economics, 1995. More recent publications, especially on labor and environment, can supplement Destler's somewhat dated study. See also Douglas A. Irwin, *Free Trade Under Fire*, Princeton University Press, 2002.

⁷ Good starting points for the collection of this information would be the USTR (www.ustr.gov), U.S. Department of Agriculture's Economic Research Service (www.ers.usda.gov), and U.S. Department of Commerce's International Trade Administration (www.ita.doc.gov).

With strategic objectives in hand, Moroccan negotiators must develop specific negotiating positions. As a rule of thumb for market access, they can draw on their own previous bilateral negotiations for items going to zero, but they should also consider provisions of U.S. bilateral agreements and U.S. preferential trade schemes.⁸ Given the brief time left before negotiations, Moroccan officials might wish to bolster this effort by engaging and funding their own technical trade consultants on a short-term basis.

RULES OF ORIGIN

Moroccan officials at the Ministry of Foreign Affairs and Cooperation and the Ministry of Commerce and Industry have identified the need for a greater understanding of rules of origin, including

- Rules of origin for textiles and apparel in the NAFTA and the Jordan FTA;
- Special rules for textiles and apparel in the African Growth and Opportunity Act (AGOA), the Caribbean Basin Trade Partnership Act (CBTPA), the Andean Trade Partnership Act (ATPA), and Qualifying Industrial Zone (QIZ) programs;
- Special provisions for access for non-qualifying textile and apparel goods under these agreements and programs;
- Anticipated treatment of Mexican and Canadian products and content in contrast to treatment of member-state content in Morocco's agreements with the European Union;
- Effects of various cumulation schemes; and
- Relative merits of a generalized rule of origin versus product-specific rules, in terms of benefits and in terms of negotiating burden.

SERVICES

Officials at the Ministry of Foreign Affairs and Cooperation and at the Ministry of Commerce and Industry need assistance in preparing for negotiations on services. In order to draw up effective negotiating positions, Moroccan negotiators need to think strategically about the long-term outlook and export potential of domestic services sectors. The Moroccan government has made no comprehensive study of the effects of liberalization related to the General Agreement on Trade in Services (GATS) or the effects of recent telecommunication and financial services reforms on the Moroccan economy.⁹ Nor have officials considered Morocco's relative worldwide competitiveness in service sectors. Moroccan officials have specifically identified the need to consider

⁸ See Appendix B for web links for these agreements and schemes.

⁹ The Moroccan Center for Export Promotion (CMPE) noted in July 2002 that it would be preparing a review of Morocco's services sectors, with financial support from the EU. This review was to be ready by the end of calendar year 2002.

- How limitations on individuals' access to foreign exchange complicate Morocco's ability to make commitments on consumption of services abroad;
- The relationship of bilateral services negotiations to current negotiations on services in Geneva;
- U.S. expectations for broader coverage of services (e.g., audiovisual) beyond those listed in Morocco's current GATS schedule; and
- Merits of a "negative" list of reservations rather than a "positive" list of commitments for covered services.

GOVERNMENT PROCUREMENT

Morocco's government procurement procedures are transparent and applied broadly at the national level. Morocco, however, is neither a signatory nor observer to the WTO Government Procurement Agreement (GPA). An FTA with the United States could represent Morocco's first government-to-government obligations on procurement. Moroccan officials have noted that neither Mexico nor Chile is a signatory to the GPA, but that the NAFTA and U.S.-Chile FTA contain procurement commitments on goods and services.¹⁰

INTELLECTUAL PROPERTY

Moroccan intellectual property rights (IPR) officials have already studied the U.S.-Jordan FTA in detail. They requested clarification of a number of provisions, specifically on exceptions to certain multilateral agreements. Negotiating teams can cover these issues, but should a familiarization trip occur as recommended, U.S. and Moroccan officials could consult in advance. Moroccan officials also noted a need to evaluate further current enforcement practices in light of presumed U.S. expectations, as embodied in the enforcement provisions of the U.S.-Jordan FTA (Article 4, paras 24-28, and the related memorandum of understanding).

E-COMMERCE

Moroccan officials have identified e-commerce as a national priority. Because regulatory responsibilities for e-commerce are spread across several distinct offices and because coordination efforts are not far advanced, determining a negotiating position will be particularly difficult. The WTO's fragmented treatment of e-commerce issues has contributed little to promoting coordination and encouraging policy decisions. Currency exchange regulations should be a consideration in the overall evaluation and design of e-commerce

¹⁰ The GPA covers only goods procurement. For a summary of the U.S.-Chile Free Trade Agreement, concluded on December 11, 2002, see http://www.usit.gov/regions/whemisphere/samerica/2002-12-11-chile_summary.pdf.

rules because Morocco's regulations limiting currency convertibility complicate individuals' direct import purchases over the Internet, though business-to-business sales are possible.

AGRICULTURE

Negotiating positions will depend on the identification of long-term strategic objectives. Transitional requirements and prospects for bringing new or non-traditional crop production online will dictate offers on market access staging. Moroccan officials expressed interest in the agriculture market access provisions of other U.S. bilateral agreements, especially the NAFTA and its various safeguard provisions. They similarly expressed interest in the U.S.-Chile FTA, because Chile too has a highly protected domestic wheat market, yet has developed considerable market access to the United States in horticulture products. With respect to sanitary and phytosanitary standards, Moroccan negotiators were interested in provisions of the U.S.-Jordan FTA, specifically exceptions (clarification of GATT Article XX (b) and (g)) and the accompanying Joint Statement on WTO Issues (para. 5).

ENVIRONMENT

During the TCB team's visit in October 2002, Moroccan officials had not yet decided to assess the environmental impact of an FTA with the United States. An assessment would help negotiators to identify the environmental effects of alternative substantive negotiating positions and to identify needs for future technical assistance aimed at improving the protection of the environment, land, and natural resources including water, and wildlife and wildlife habitat.

Recommendations

HIGH PRIORITY

- ***Prepare Sectoral Economic Issues Papers.*** Drawing on existing research and locally available experts, Moroccan officials should prepare studies on the anticipated effects of the FTA on the Moroccan economy, government budget, society, regions, and natural resources. **Timing:** Early 2003.
- ***Conduct Familiarization Trip for Negotiators.*** Morocco should seek funding for a familiarization trip to the United States for key members of its negotiating team.¹¹ The Moroccans could meet USTR counterparts for an informal discussion of substantive issues,

¹¹ In October 2002, several officials from the Ministry of Foreign Affairs, the Department of the Environment, and a number of environmental NGOs traveled to Washington to be sensitized to U.S. concerns regarding the environment and free trade.

including IPR, and be briefed on the U.S. trade advisory committee system. They could meet Congressional staff, representatives of trade organizations (such as the National Foreign Trade Council, the Coalition of Services Industries, and other groups interested in IPR issues¹²), and representatives of unions and NGOs. If a separate trip is not possible, these meetings might still be useful during an early negotiating round in Washington.

Timing: Early 2003.

- **Conduct Training Seminar on U.S. Trade Policy.** To reach a wider audience of Moroccan officials, the Moroccan government should hold a two- to three-day training seminar in Rabat to familiarize Moroccan negotiators with the U.S. trade policy “scene” and to ensure a full understanding of U.S. objectives, as elaborated in legislation and the October 1 Zoellick letters. **Timing:** Early 2003.
- **Create an Interagency Committee for E-commerce.** Morocco should create a formal interagency committee, with clear lines of responsibility, to develop a transparent regulatory regime to facilitate e-commerce. The committee should have a strict timeline with milestones and should consult extensively with the Moroccan private sector. Outside assistance could be sought from the United Nations Council on Trade and Development (UNCTAD) or the International Trade Center (ITC) or bilaterally. **Timing:** Early 2003.
- **Undertake an Environmental Impact Assessment.** Morocco should prepare a systematic review of the likely effects of the FTA on the Moroccan environment and solicit public comment. Morocco should seek guidance on the principles of environmental review of trade agreements and training on their preparation. **Timing:** Early 2003.

MEDIUM PRIORITY

- **Gather More Detailed Information on Sectoral Impacts of Liberalization Options.** Policymakers have requested more detailed and, where feasible, quantitative information on the impact of trade liberalization options on employment, income, public finance, investment needs, regions, and natural resource use in multiple sectors. Since more time would be required to model these impacts, this exercise would have to be conducted during the FTA negotiation period.¹³ **Timing:** 2003.
- **Involve Private Sector and NGOs in Domestic Trade Policy Formulation.** Morocco should establish formal mechanisms to involve the private sector and NGOs in domestic trade policy formulation. A possible model is U.S. trade advisory committee procedures.¹⁴ The training seminar recommended on U.S. trade policy could be expanded to include

¹² These might include the Pharmaceutical Researchers and Manufacturers of America, the Motion Picture Association, and the Recording Industry Association of America.

¹³ A four-person team at Mohammed V University spent roughly six months constructing a CGE model in 1990-1991 using the 1985 national social accounting matrix. With better sources of information available today, detailed quantitative analysis should take less time, but the overall requirements should not be underestimated.

¹⁴ See <http://www.ustr.gov/outreach/advise.shtml>.

familiarization with U.S. institutions and procedures for trade policy formulation, including the role of private sector advisers. The activities of various U.S.–EU transatlantic dialogues could serve as an alternate model.¹⁵ **Timing:** Early 2003.

- ***Develop Statistical Base and Study Impact of GATS and Other Liberalization on Services in the Domestic Economy.*** Officials could draw on Moroccan academic resources to develop a statistical base and to study the impact of GATS and other liberalization on the domestic economy. They could turn to expertise available through UNCTAD or ITC in applying international benchmarks for service sector competitiveness and to review international successes and major policy initiatives of other countries, developing and developed. They could examine their own service industries and regulators to determine export potential by type of service and by destination and to identify major impediments to the export of services in overseas markets. They could also consider natural linkages between exports of goods and related services (e.g., IT hardware and software services or diagnostic equipment and training). **Timing:** 2003.
- ***Seek Training in Services Negotiations.*** Moroccan officials might seek training by independent experts in services negotiations. The United States has funded such training in Latin America and the WTO offers similar training. Though extended services training to date has been geared to the request/offer approach of current multilateral services negotiations, such training could nonetheless provide insights for more liberal generalized (horizontal) commitments and for a “reservation” approach to negotiations. **Timing:** 2003.
- ***Make Government Procurement More Predictable.*** In parallel with negotiations, Moroccan officials could seek expert assistance in designing methods to make government procurement procedures more predictable (foremost by identifying a consistent application of national preferences), and to extend procedures consistently to sub-national government procurement and to procurement by state-run enterprises. Moroccan officials should consider applying procurement rules to tenders for concessions offered through Morocco's privatization office. The World Bank and the WTO have several programs to facilitate design and implementation of procurement rules. **Timing:** 2003.

¹⁵ See <http://www.tabd.org> and <http://www.tacd.org>.

3. Implementing FTA Commitments

As a result of commitments undertaken in the FTA, Morocco will need to pass new implementing legislation, conform existing legislation, and take regulatory actions. Provisions on customs, safeguards, intellectual property, temporary entry of business persons, certain service sectors, and government procurement and general and institutional provisions will require legislation or regulation. Certain provisions, such as those on dispute settlement, safeguards, and institutional arrangements, will probably require new organizations in the Moroccan government. For example, at present no separate national office exists to make injury determinations, even with regard to various WTO provisions. Morocco could benefit from multilateral trade agency assistance to promote understanding of multilateral disciplines on trade remedies and safeguards. The WTO has offered such training programs in the past.

Customs Administration and Trade Facilitation

In recent years the Moroccan customs service has made significant reforms that reflect international practices and that should reduce obstacles to international trade. In addition, Morocco has taken steps to comply fully with WTO requirements on customs valuation. Morocco's Customs Administration, however, has suggested that sovereignty concerns could limit collaboration on audits. Moroccan and U.S. Customs Services have already corresponded to initiate broad agency-to-agency discussions on cooperative activities. How textile visas, if any, are handled will depend on the rules of origin incorporated into the FTA. Morocco already manages such visa requirements in its trade with Europe. Nevertheless, the introduction of additional rules of origin under the U.S.-Morocco FTA will place new pressures on Morocco's customs capacities.

Foreign companies doing business in Morocco report that the Moroccan Customs Administration has made great strides toward modernization in the last few years.¹⁶ Private trade facilitation services are sometimes inefficient, including freight forwarding and bank services, which are seldom computerized. Opening these services to foreign competition through the FTA's services negotiations should help.

Intellectual Property Rights

In March 2000, Morocco published a law relating to protection of industrial property. It contains new patent and trademark legislation that aims to bring Morocco into compliance with obligations under the WTO treaty on the trade-related aspects of intellectual property rights (TRIPS). The new Patent Law, however, is still not in force because implementing regulations have not been issued. Consequently, foreign investors in particularly sensitive industries, such as pharmaceuticals and agricultural firms involved in new plant varietal and animal stock dissemination, are reluctant to expand business into Morocco.

Piracy remains a significant problem. Morocco has few resources to enforce intellectual property rights but has responded positively to allegations and charges brought by rights holders, particularly owners of business software. Morocco has launched a campaign to educate the public on the importance of intellectual property rights protection and its significance, for example, to Moroccan artists.

Government Procurement

Moroccan government procurement procedures are generally transparent and efficient. They could benefit from greater use of electronic channels of communication and from further training of procurement officials, especially at the sub-national level. The FTA will presumably create international obligations for the first time for Moroccan procurement practices. Consequently, Morocco may need to establish procedures and train officials on procurement of services.

Technical Barriers to Trade and Product Standards

Morocco's standard-setting procedures, including opportunities for foreign comment, appear sophisticated and generally WTO-compliant. The number of products subject to national

¹⁶ See *AMCHAM 2001 Survey: A Survey of Executive Perceptions About Business and Investing in Morocco*. Casablanca: The American Chamber of Commerce in Morocco, 2001. www.amcham-morocco.com/publications.html.

standards is not large but should grow in the future. U.S. exporters seem able to comply with Moroccan consumer labeling requirements, which were revised in June 2002.¹⁷

Environment

As a result of the October 2002 environmental study tour to the U.S., Moroccan officials understand much of the U.S. position on the trade and environment agenda. Moroccan environmental officials have requested more detailed information on environmental technical cooperation programs associated with the U.S.–Jordan FTA (e.g., copies of memoranda of understanding and work plans). They have also requested copies of U.S. environmental protection laws. To the extent that the U.S.–Jordan FTA provides a model, technical assistance proposals on the environment should flow naturally from the negotiation (in parallel with the FTA) of a Joint Statement on Environmental Technical Cooperation and the likely creation of a Joint Forum on Environmental Technical Cooperation. Other implementation activities, however, can be undertaken independently.

Labor

The FTA itself will address enforcement of domestic statutes and regulations relating to industrial relations, acceptable working conditions (including occupational health and safety), forced or compulsory labor, and child labor. Morocco has longstanding regulatory frameworks for each of these, although capacity to enforce regulations is an issue. In addition, Morocco's Labor Code reinforces labor market rigidities by making it difficult for firms to lay off redundant workers. This keeps unproductive workers on the payroll and limits firms' ability to hire workers with new skills. Weak capacity to investigate alleged labor code violations and to mediate minor industrial relations disputes has created a climate that favors job stoppages over mediation. This, in turn, discourages domestic and foreign investment in new or expanded labor-intensive activities. Such regulations also increase firms' incentives to use temporary workers under less secure and perhaps less optimal working conditions. Reliance on temporary labor to fill workforce gaps also discourages firms from investing in employee skill development.

Moroccan authorities are aware of these issues, and the King announced that passage of a new Labor Code is on his government's agenda for 2003. In addition to regulatory concerns particular to the FTA, policymakers will need to consider the economic issues affecting the

¹⁷ Aziz Abdelali, "Morocco: Food and Agricultural Import Regulations and Standards, Country Report 2002." U.S. Embassy, Rabat, Morocco. www.fas.usda.gov/gainfiles/200208/145783499.pdf.

cost of labor relative to other factors of production in the local market (see section on "Increasing Employment").

Competition Policy

Morocco has evolved substantially away from an economy wherein public agencies set prices for products and services. The Pricing Department used to set prices for several hundred goods. Today it covers pricing and competition but sets prices for only 20 products. The Law on Freedom of Prices and Competition has been in effect since 2001 and a Competition Council was named in January 2002. Public sensitization campaigns have been underway to explain the new law to organizations, professional associations, and chambers of commerce.

Competition policy enforcement is largely prospective and as such could benefit from an international dialogue with experienced practitioners as Morocco ramps up its regulatory regime. The U.S. Federal Trade Commission (FTC), in partnership with the Antitrust Division of the Department of Justice, has operated a USAID-funded technical assistance program in various regions to support implementation of competition law and policy practice.¹⁸ The FTC has been active in Tunisia recently and seeks to expand across the Maghreb to provide services on a regional basis.

Recommendations

HIGH PRIORITY

- ***Identify Legislative and Administrative Actions Needed to Implement the FTA.*** Moroccan officials should seek assistance in identifying necessary legislative and administrative action and in drafting laws and regulations upon completion of FTA negotiations. **Timing:** 2004.
- ***Conduct Training in Rules of Origin and New Customs Requirements.*** Moroccan officials should seek short-term training to familiarize customs authorities with new rules of origin and new customs requirements. **Timing:** 2004.
- ***Enhance IPR enforcement.*** Moroccan officials should consider creating a special prosecutor for IPR crimes. Moroccan officials should seek assistance for training police and prosecutors

¹⁸ See OECD Global Forum on Competition, "The United States Experience in Competition Law Technical Assistance: A Ten Year Perspective," note by the U.S. Federal Trade Commission and the U.S. Department of Justice, Antitrust Division, CCNM/GF/COMP/WD (2002) 20, February 2002, <http://www.oecd.org/pdf/M00025000/M00025781.pdf>

in identifying IPR crimes and bringing criminals to justice. Moroccan officials should also seek training for judges in handling cases involving IPR crimes.¹⁹ **Timing:** Early 2003.

- ***Protect Confidentiality of Data in Patent Applications.*** Morocco should introduce regulations protecting the confidentiality of data contained in patent applications in order to create a more favorable investment climate, especially for the pharmaceutical industry. **Timing:** Early 2003.
- ***Regulate IPR for Animal Stock and Plant Varieties.*** Moroccan officials should seek outside assistance in designing programs to regulate intellectual property rights with respect to animal stock and plant varieties, including testing genetic material, training inspectors, and implementing existing laws. **Timing:** Early 2003.
- ***Conduct Training in Environmental Assessments, Inspections, and Decisions.*** Morocco should request assistance in training its trainers and environment officials in environmental impact assessments, risk assessment and management, enforcement principles, environmental compliance inspections, and economic incentives for environmental decision-making. **Timing:** 2003.
- ***Develop Means of Enforcing Environmental Legislation.*** Much of Morocco's environmental legislation is "in the pipeline" (i.e., only one house of Parliament has passed legislation). This includes a basic environmental protection law, air quality legislation, and a law requiring impact studies to accompany industrial projects. Morocco will need to develop regulations and mechanisms to enforce this legislation. Enforcement resources are admittedly scarce. Few enforcement actions are now undertaken, and prosecutorial powers are still waiting to come into force. Morocco should request assistance in developing regulations. **Timing:** 2003-2006.
- ***Conduct Training in Labor Law.*** Morocco should seek labor law training for representatives of employer and worker organizations and Ministry of Labor staff. Training in collective bargaining techniques and mediation, conciliation, and dispute resolution would also be useful. Reinforcement of the Ministry of Labor's labor inspection capacity would also be helpful in resolving minor disputes and avoiding full-blown work stoppages.²⁰ **Timing:** 2003-2006.
- ***Review Occupational Health and Safety Laws.*** Moroccan authorities should review current regulations on occupational health and safety to determine whether they are consistent with internationally accepted labor practices and whether the penalties are adequate as

¹⁹ On November 6, 2002, USAID signed a \$3.2 million, two-year contract to help Morocco update commercial laws and improve the administration of commercial justice. The review of laws, regulations, and enforcement procedures to protect IPR is mentioned in the grant agreement between USAID and Ministry of Justice.

Because of the lack of implementing regulations, IPR has not been included in the contractor's workplan.

²⁰ The U.S. Department of Labor's Bureau of International Labor Affairs (DOL/ILAB) is funding a three-year, \$1.5 million contribution to an ILO project to address these issues, improving Moroccan industrial relations through dialogue between government, employers, and labor. DOL/ILAB is also considering a grant in FY2003 to address economic opportunity and income security issues facing workers as a result of the FTA.

deterrents. Moroccan authorities should also request training on setting and enforcing occupational health and safety standards. **Timing:** 2003.

- **Seek Assistance for Competition Law Enforcement.** Morocco should pursue a bilateral technical assistance plan on competition law enforcement. Useful tools could include guest resident advisers to directly advise the Competition Department on actual in-country investigations and short-term missions to teach investigative skills, work on hypothetical case exercises, and address particular discrete issues. Other elements of the activity could include prosecutorial and judicial training. **Timing:** 2003-2006.

MEDIUM PRIORITY

- **Use Electronic Documentation and Translate Customs Regulations into English.** Moroccan officials should pursue more general use of electronic documentation and translate Moroccan customs regulations into English. **Timing:** 2004.
- **Identify Institutional Actions and Devise Rules for New Administrative Organizations.** Moroccan officials should seek assistance in identifying institutional actions and in designing and writing rules for new administrative organizations. Moroccan officials should seek training for those assuming new responsibilities, especially those making injury determinations for safeguards and trade remedy cases. **Timing:** 2004.
- **Advertise Procurements Broadly and Streamline Bidding.** Moroccan officials should explore advertising procurement opportunities more broadly, including multilingual electronic transmissions, and streamlining bid submissions, specifically through electronic tendering. The World Bank and the ITC are possible sources of assistance. **Timing:** 2003.
- **Conduct Procurement Training.** Morocco should seek assistance in training procurement officers in national and local government offices and in state-owned enterprises. Training should cover procurement of services as well as goods. **Timing:** 2004.
- **Communicate Safety and Quality Standards and Conduct Training.** Moroccan officials should seek support, as they expand the number of goods subject to standards, to communicate information on safety and quality standards, to solicit stakeholder views, and to train its officials. **Timing:** 2003-2006.

4. Responding to Opportunities Created by the FTA

To seize new FTA market access opportunities early and effectively, the Moroccan private sector, especially small and medium enterprises (SME), must better anticipate and identify new export markets, think creatively about market positioning and appropriate channels of distribution, and find ready access to working and investment capital.

Identifying Export Market Opportunities

Because Morocco's export sector has focused mainly on the European market, little has been done to identify concrete opportunities and potential partners in the U.S. market. Moroccan firms have little understanding of that market, believing it too large and complex for local businesses to fully grasp. Except for certain products (e.g., anchovies, electronic products, apparel), exports to the United States are erratic, representing only around 3 percent of Morocco's total exports. Nevertheless, Morocco's export community is generally optimistic about opportunities that an FTA with the United States could create. Sectors considered to have the highest export potential include labor-intensive manufactures (e.g., textiles, electronics, automotive components), some service sectors (e.g., tourism, information technology), and agribusiness (e.g., agriculture, agro-industry, fisheries).²¹

Better marketing capabilities depend on market analysis and in part on relationships between Moroccan professional associations and industry groups in importing markets. Resource constraints often limit these interactions. Foreign buyers or investors therefore usually initiate exports from Morocco by handling marketing functions while helping local businesses meet

²¹ Abbott, Philip C., Touhami Adbelkahalek, and B. Lynn Salinger. 2000. Future Outlook for Morocco-U.S. Trade and Investment Relations. Prepared for the U.S.-Morocco Trade and Investment Framework Agreement. Cambridge, MA: Associates for International Resources and Development. Belghazi, Saâd, Daniel Plunkett, and B. Lynn Salinger. 2002. Opportunities for Enhancement of U.S.-Morocco Trade and Investment (*Opportunités pour l'Amélioration du Commerce et des Investissements entre le Maroc et les États-Unis d'Amérique*). Prepared for Moroccan Ministry of Commerce, Industry, Energy, and Mines, with support from the U.S. Trade and Development Agency. Cambridge, MA: Associates for International Resources and Development.

standards and specifications. As a result, international sales departments in many export-oriented business units have atrophied. Local firms or consultants could hire marketing research firms in the target markets, but this is expensive and public (or donor) resources can only go so far. Moroccan professional associations are unable to satisfy members' demand for linkages with foreign businesses or for accurate and usable market information. Strengthening selected associations' marketing and communication capabilities will help bridge informational gaps that have handicapped some sectors in exploring non-traditional markets and establishing relationships with new partners.

According to one observer with experience working on exports from Morocco, marketing assistance generally leads to modification of a product or its packaging, or a change in the producer's business practices. Producers may need to set standards for responses to sales inquiries, ensure that an offer is made in the right language or that a specific labeling requirement is met, rework a manufacturing process, organize focus groups in the target country to test product acceptance, or design a roll-out campaign for volume market entry.²²

AGRICULTURE AND FISHERIES SECTORS

The ability of Moroccan agribusinesses to identify and pursue market export opportunities depends on their size and potential to ship large volumes. For example, citrus, tomato, and cut flower sectors are quite savvy, while small volume horticulture exporters are less aggressive and unable to afford detailed overseas market studies.

Moroccan agriculture and fisheries exporters have adapted to the EU market, where they enjoy some seasonal opportunities. At the same time, the Common Agricultural Policy (CAP), which subsidizes European farmers and exports, hinders Morocco's agricultural exports to the European Union and the United States. For example, Morocco's exports of sliced olives to the United States suffered significantly when Spanish competitors were able to undercut Moroccan products by 20 percent because of export subsidies.

Except for large firms that have invested in market research and have established linkages with U.S. distributors, the agribusiness and agricultural sectors do not understand the needs and organization of the U.S. market. Representatives of some subsectors claim that transportation and volume issues hinder market penetration, but some Moroccan firms have successfully penetrated the U.S. market and maintained relationships with U.S. partners (e.g., anchovies, sardines) despite such issues. The agriculture and fisheries sectors could benefit

²² Personal communication, Don Humpal, former chief of party, Morocco Agribusiness Promotion Project, Development Alternatives Inc., Bethesda, MD.

tremendously from the establishment of market information systems similar to marketing assistance projects introduced by USAID previously in Morocco²³ and in other countries.²⁴

LIVESTOCK SECTOR

The impact of the FTA on the livestock sector in Morocco should be positive for Moroccan and U.S. firms. Decreases in tariff barriers into Morocco for U.S. feed grains and oilseeds will lower the landed costs of these feed inputs, increase imports from the United States, lower the cost of meat production in Morocco, increase domestic demand for meat products, and lead to expansion of both red and white meat production.²⁵ Increased production will spur specialization and intensification of livestock systems, and thereby increase imports of animal genetic stock and other technology and know-how.²⁶ As production of red and white meat becomes more competitive, consumers' costs will decrease and Morocco's per capita animal protein consumption, one of the lowest in the region, will increase.

TEXTILE SECTOR

The textile sector may offer good potential for Moroccan and U.S. firms to the extent that U.S. fabrics may be exported to Morocco for outward processing and assembly by Moroccan clothing firms for re-export to the United States or other markets. Morocco's apparel industry is labor-intensive and some firms, especially those with connections to the international market, are hopeful that the FTA will lead to significant new job creation. The Moroccan industry should engage in its own marketing efforts to improve its knowledge of the U.S. market. For example, a concerted effort by Moroccan textile and clothing firms could help to raise awareness in the United States of Morocco's competitive advantage vis à vis other offshore processing and assembly locations. For example, the *Association marocaine des industries du textile et de l'habillement* (AMITH, the Moroccan Textile and Clothing Industry

²³ From 1992-1998, the Morocco Agribusiness Promotion (MAP) Project, implemented by Development Alternatives Inc., the University of Minnesota, USDA, and Michigan State University, provided such services. An end-of-project review of the MAP project highlighted the creation of 14,000 jobs and a \$67 million increase in agribusiness exports. See Richard D. Abbott, "The Morocco Agribusiness Promotion Project: End of Project Review," prepared for USAID/Morocco (Bethesda, MD: PRIME International, Inc., June 1998). Many Moroccans considered this project highly successful and expressed strong interest in a second round in light of the FTA.

²⁴ Such as Ghana's Increased Private Enterprise Performance component of the Trade and Investment Reform Program (see <http://www.ghanatrade.org/amex.htm> and www.amexdc.com) and Uganda's Investment in Developing Export Agriculture Project (see www.chemonics.com).

²⁵ An earlier analysis for the U.S. Grains Council and the Moroccan poultry sector association (FISA), recommended lowering tariffs on imported frozen poultry meat to encourage high-end consumer demand for slaughtered poultry products and to diminish demand for live poultry sales. See Philip C. Abbott, Paul Aho, Adair Morse, B. Lynn Salinger, and Wallace E. Tyner, "Strategy for Expanding Morocco's Poultry Sector: Market Development Recommendations," prepared for the U.S. Grains Council (Cambridge, MA: Associates for International Resources and Development, September 30, 2000).

²⁶ The U.S. Department of Agriculture can provide technical information to promote livestock sector development in Morocco in numerous ways. These may include in-country technical assistance, connections to U.S. feed and livestock companies seeking to do business abroad, informational tours abroad via the Cochran Fellowship Program, or through Foreign Market Development programs with USDA "cooperators" (e.g., the U.S. Grains Council, the American Soybean Association, and U.S. Livestock Genetics Export, Inc.).

Association) might organize attendance at U.S. and international sourcing fairs, follow the U.S. textile and clothing industry trade press, and identify professional association allies in the United States.

HIGH TECH SECTOR

Consisting of information technology, microelectronics, telecommunications, and software, Morocco's high tech sector has advanced significantly in recent years. Integrated circuits and diodes are the second largest export category from Morocco to the United States. Moroccan software development firms have started to offer their services internationally, principally in Europe. For example, some local firms provide software development services to credit card firms and to software firms in India. While many of Morocco's technical experts have emigrated to Europe and the United States where they earn high wages, a significant pool of local expertise remains to provide offshore services to the U.S. market, provided language constraints are overcome. Local technical expertise, however, is insulated from international markets. Young Moroccan entrepreneurs in this industry, who still lack international sales and market analysis skills, could also benefit from efforts to boost marketing capabilities. New technology-based linkages being established in the United States and elsewhere to link local communities to global markets could have interesting applications in Morocco.²⁷

Understanding U.S. Standards

The Moroccan private sector's ability to access information on and to meet U.S. standards is essential to increasing the responsiveness and flexibility of Morocco's export sector. Standards include U.S. Government regulations on animal and plant health and food safety as well as industry standards for quality and performance.

ANIMAL AND PLANT HEALTH AND FOOD SAFETY STANDARDS

While the U.S. market could present an alternative to Europe, especially for niche and specialized agricultural products, the presence of Mediterranean fruit fly in Morocco is a major impediment. For example, the U.S. Department of Agriculture (USDA) has certified only two of Morocco's tomato-growing regions—representing less than 10 percent of national production—as free of Medfly and able to export to the United States. Morocco's Exports

²⁷ The Department of Commerce's Technology Opportunities Program (<http://www.ntia.doc.gov/otiahome/top/index.html>) offers an interesting grant-making model to local communities that use network technology to create jobs. Recent grantees have included e-commerce, teleworking, skills training, networking, and job linkages. Elsewhere, with support from the World Bank and other donors, electronic linkages are helping to create online labor markets for international IT service transactions. USAID's Global Workforces in Transition project, managed by USAID/Washington's Center for Human Capacity Development, offers access to such e-resources for education, training, and job creation.

Control and Coordination Agency (EACCE) has extensive knowledge of USDA and Food and Drug Administration (FDA) regulations pertaining to local agriculture and agribusiness products. The agency has hosted USDA/Animal and Plant Health Inspection Service and FDA representatives in Morocco, organizing firm-level tours and working seminars on behalf of leading exporters. More should be done to disseminate and explain USDA and FDA standards to a broader set of local firms. The EACCE is considered to be a model in the Mediterranean region for its ability to implement foreign agricultural and food regulations. The European Commission recently accredited the agency's ability to implement and supervise quality self-certification programs for Moroccan produce destined for the European Union.

INDUSTRY QUALITY AND PERFORMANCE STANDARDS

Moroccan manufacturing firms need to understand and meet international quality, safety, and labeling standards to compete effectively in overseas markets. While new foreign investment for export is geared to such production, existing firms and SMEs in particular are at a disadvantage. Trade associations, working with the Quality and Norms Division in the Ministry of Commerce, Industry, Energy, and Mines, could expedite the introduction of new manufacturing requirements and training in those requirements.²⁸

Facilitating SME Access to FTA Opportunities

To quickly reap the potential of the FTA, the Moroccan private sector needs to expand rapidly and to satisfy export demand. Ninety-two percent of business firms in Morocco are SMEs, mostly family-owned businesses with fewer than 50 employees.²⁹ Modern financial, accounting, and human resources management tools are not widely used. The SME sector is a vastly underserved segment of the market in Morocco, yet it is the main growth-generating sector in similar economies.

SME FINANCIAL NEEDS

Commercial banks' venture capital services are not adapted to the needs of local businesses, especially SMEs. Limited access to financial resources in turn hampers private sector growth.

²⁸ The EU recently launched its Euro-Maroc Entreprise project under MEDA II funding (i.e., Association Agreement transition assistance), in collaboration with the Ministry of Commerce and Industry. With an operational budget of about \$15 million over five years, the project will help improve the competitiveness of Morocco's private sector working through firms, professional associations, and consulting groups. The project expects to direct some assistance to production quality.

²⁹ Ministère délégué auprès du premier ministre chargé des affaires générales du gouvernement and Dyna-PME, "La petite et moyenne entreprise, moteur de la croissance économique."

The domestic cost of capital is high³⁰ and lending capital is relatively scarce. Commercial risks that are especially acute for SMEs give rise to high collateral and other guarantee requirements. Even if they are able to identify commercial banks with which they can do business, SMEs consider the banks' stringent collateral requirements, based largely on immobile assets, unrealistic.

Public sector capital requirements and commercial banks' aversion to lending to SMEs influence interest rates in Morocco. Government is the most rapidly growing sector of the Moroccan economy. Drought-related spending, exceptional transfers to public enterprises and investment spending, and reductions in trade tariff revenue caused by the phasing in of the EU Association Agreement (EUAA) aggravate the government deficit. The government resorts to domestic borrowing, which in turn drives up interest rates. With Treasury bills selling at 7 percent, domestic banks' preference for public sector lending stifles private investment, especially to SMEs which are riskier and costlier to service.

Despite upward pressure on credit costs, SMEs would probably be willing to pay an even higher cost if the banks would lend to them. Micro-finance institutions (MFI) may be more suited to lending to SMEs. However, a number of micro-finance policy issues confound extension of credit by MFIs to SMEs. Laws regulating the microfinance sector should be revised to include the SME sector. This will require reviewing established loan caps and allowing for-profit institutions to serve this market. Morocco's financial regulatory structure limits the loan ceiling of MFIs to \$5,000. If MFIs are to serve SMEs, the ceiling will have to be revised upward. The deepening and extension of MFI programs will have rapid positive effects on the SME sector in general. Having their interest rate capped at 15 percent dissuades commercial banks in Morocco from entering this costlier and riskier market. MFIs in Morocco charge and receive 35 percent for their micro-loans, suggesting substantial potential at this end of the market.

To tackle this persistent problem, new and adapted financial instruments should be developed for the SME sector.³¹ Services and products developed for the micro-credit field are more suitable to the needs of the Moroccan SME sector than the instruments used by local commercial banks. Tools used by MFIs can help bridge the "cultural" and communication gaps that exist between the private sector and the banking sector.

³⁰ Average interest rates, around 8 percent, are not particularly high. However, for firms presenting higher potential commercial risk to lenders (especially SMEs), anecdotal evidence suggests that interest rates can exceed 15 percent.

³¹ USAID supported increasing access to financing for SMEs through its 1992-2000 New Enterprise Development project, also known as *Dyna-PME*. One component of that project sought to establish a \$5 million working capital loan guarantee fund for SMEs. Institutional disagreements precluded timely operation of the fund.

SOURCES OF SME SUPPORT

Several organizations work with SMEs in Morocco. The government's SME Charter passed in August 2002 gave rise to an SME Department in the Ministry of General Government Affairs (now the Ministry of Economic and General Affairs and Economic Restructuring). SME support activities include an SME promotion agency, which opened in November 2002, and the Maison de la Jeune Entreprise programs to provide training and advice to SMEs. The International Financial Corporation recently launched an enterprise development project in North Africa, headquartered in Morocco, to provide business development services to SMEs through the commercial banking sector. The goal is to develop tools, such as guarantee funds and equity participation, that encourage commercial bank services for the SME sector. The EU's MEDA program includes a technical assistance component to SMEs through the recently created Euro-Maroc Entreprise.

USAID is the leading donor with respect to the creation of MFIs in Morocco. It supports an NGO, Al Amana, and two other organizations. As of September 30, 2001, the cumulative loan portfolio of these three organizations reached more than 200,000 clients, exceeding targets by 33 percent. USAID is also designing a new activity to strengthen the Fédération Nationale des Associations de MicroCrédit (FNAM). But USAID's technical assistance in this field has concentrated on using microcredit to alleviate poverty rather than develop the private sector.

Donor-supported efforts to extend credit to SMEs in Morocco concentrate on the institution of guarantee funds in the commercial banking sector, even though local commercial banks have not changed their views about SMEs. Non-bank financing options have been explored very tentatively. SMEs' access to investment and working capital will depend on alternative sources of financing that work around commercial banks' slow adaptation to the needs of the SME sector.

Recommendations

HIGH PRIORITY

- ***Improve Capacity to Identify Market and Export Opportunities.*** To stimulate immediate, tangible, and measurable results under the FTA, Morocco should seek specialized technical assistance for key sectors to identify potential export opportunities for new, possibly niche, products.³² Exporters should seek to develop alliances and partnerships with distributors in foreign markets. Assistance could also be provided through grants or vouchers for service provision by Moroccan consulting firms, thereby developing local private sector capacity to

³² Note that U.S. Government resources are proscribed from being used for assistance to certain overseas sectors (e.g., citrus, textiles).

conduct marketing analysis. Morocco should also seek to strengthen ability of professional associations and private service providers to provide foreign market analysis and disseminate information on foreign market standards and regulations. This would supplement the work of the EACCE. Professional organizations should also be building better linkages with foreign partners. This will help reach a large number of interested firms and will allow for the development of sustainable services in this area. Morocco should also pursue opportunities to train the private sector in use of the Internet to broaden its customer base, enhance market exposure, and improve competitiveness in international markets. **Timing:** Design, 2003; Implementation, 2004-2009.

- ***Improve Productivity and Increase Investment in Livestock Sector.*** Assistance should be provided to help Morocco improve productivity and expand investments in its livestock sector, a sector that offers positive potential for Morocco and the United States. Morocco's Department of Livestock needs support to develop a comprehensive strategy for modernizing the sector's marketing, slaughtering, and processing infrastructure. This will strengthen vertical integration and raise sector productivity. Morocco should also explore potential niche export markets for livestock-based products (e.g., processed products, Morocco-specific products).³³ **Timing:** Through 2009.
- ***Improve Cold Chain Infrastructure.*** Moroccan authorities should seek assistance to help improve infrastructure to maintain the appropriate temperature of food in the supply chain, from a port or farm gate to the dinner plate. This includes assessment of cold chain conditions, introductory seminars and training, and consultations with private sector experts. **Timing:** 2003-2006.
- ***Accelerate Implementation of SPS Reforms.*** Moroccan officials should seek assistance in understanding and accelerating conformity with internationally accepted SPS practices. Activities would focus on training in risk assessment, developing technical research and background indices for regional pests and animal diseases, and designing an information and surveillance system for national plant and animal health issues. Food safety regulations need to be upgraded and brought in line with Codex and/or U.S. standards. Other SPS regulations need modification to reflect integrated pest management techniques and the latest scientific developments. An additional activity should aim to familiarize Moroccan regulators with U.S. inspection systems and rules and train Moroccan inspectors. **Timing:** 2003-2006.

³³ Both the U.S. Foreign Agricultural Service in Morocco and its previous AgLink program have supported livestock industry development through a combination of foreign market development cooperators programs with Moroccan feed grain importers and livestock professional associations, professional training, and support to U.S. companies seeking to distribute improved technology (e.g., animal genetic stock) in Morocco. USDA's Cochrane Fellowship Program offers U.S.-based training for senior and mid-level public and private sector professionals involved in agricultural trade, agribusiness development, management, policy, marketing, and technology transfer.

- **Develop New Financial Instruments for SME Sector.** New financial instruments are needed for the SME sector. A market-oriented approach addressing the reservations of commercial banks is also needed. Morocco should seek technical assistance in the following areas:
 - Training of loan officers to better evaluate SME creditworthiness;
 - Provision of SME lines of credit;
 - Revision of evaluation criteria and collateral requirement policies (use of movable assets);
 - Correction of regulatory and administrative problems that hinder institution of non-bank financial institutions that can better serve the SME sector;
 - Development of instruments to reduce high transaction costs and risk associated with lending to SMEs;
 - Introduction of specialized lending software to help reduce administrative costs; and
 - Revision of law enforcement mechanisms (contract, collection of collateral), and the institution of credit bureaus to help reduce perceived or real risks associated with SME lending.

Timing: Design, 2003; Implementation, 2004-2009.

MEDIUM PRIORITY

- **Familiarize Processors and Agribusinesses with U.S. Inspection Systems.** Moroccan authorities should seek assistance to familiarize private sector processors and agribusinesses with U.S. inspection systems and regulations. This includes training in risk assessment and the establishment and implementation of modern food safety and quality control systems. **Timing:** 2003 and ongoing.
- **Improve Communication between the Ministry of Agriculture Headquarters and Inspectors.** Moroccan authorities should seek assistance to improve communication between headquarters in Rabat and inspectors at the ports and in the field. Computerized techniques and personnel training are required to handle and share files expeditiously. New laboratory and test equipment is required, as are vehicles for onsite inspections of animal, plant, and food-related facilities. **Timing:** 2004.

5. Macroeconomic and Business Environment Challenges and the FTA

A sound macroeconomic and business environment will promote the ability of firms and households to take advantage of the FTA's new trade and investment opportunities. Recent analysis of the competitiveness of Morocco's manufacturing sector, however, suggests that a number of factors hamper Morocco's export performance: limited access to capital, high labor costs, low technical workforce skills, regulatory impediments, lack of export diversification, out-of-date manufacturing processes, and limited firm-level attention to innovation.³⁴

Some Moroccan exporters say that current U.S. tariff levels are not a major obstacle to expanding U.S. sales. Many traditional exports are eligible for Generalized System of Preferences (GSP) treatment, and most-favored nation tariffs are generally low for other Moroccan exports, except some canned seafood and edible oils.³⁵ Nor are import tariffs an issue for the semiconductors or electronic integrated circuits that Morocco exports to the United States. Indeed, one study of Morocco's export opportunities under free trade conditions notes that Moroccan exports to the United States are growing most rapidly in product categories that face relatively high average duties (e.g., clothing) or direct competition from Mexican suppliers (e.g., clothing, electronics).^{36,37}

³⁴ World Bank and Moroccan Ministry of Commerce, Industry, Energy, and Mines. *Moroccan Manufacturing Sector at the Turn of the Century*. Washington, D.C.: February 2002.

³⁵ A guide to the U.S. GSP is available at www.ustr.gov/reports/gsp/index.html.

³⁶ Abbott, Abdelkhalek, and Salinger, op.cit. 2000.

³⁷ That being said, at least one U.S. clothing company manufacturing in Morocco notes that its Moroccan workforce has shrunk from 1,200 to 600 in the last year because the parent company prefers to divert sourcing to countries whose garment exports have preferential access to the U.S. market. The company manufactures in Kenya, Jordan, and Mexico, and will soon open a facility in Madagascar. The parent company has indicated that passage of the FTA could lead to a doubling of orders from Morocco. (See American Chamber of Commerce in Morocco, "Written Comments to the Office of the United States Trade Representative on the Proposed U.S.-Morocco Free Trade Agreement," November 22, 2002, www.amcham-morocco.com/downloads/ustrfta.pdf.)

In this chapter we explore the macroeconomic, labor market, and business environment conditions necessary for Moroccans to respond fully to FTA opportunities.

Macroeconomic and Labor Market Challenges

An overvalued dirham and internal budget deficits financed through domestic borrowing, with negative repercussions for domestic financial capital markets, characterize Morocco's economy and penalize exporters and labor-intensive activities.

EXCHANGE RATES

The real effective exchange rate has appreciated more than 20 percent over the last decade.³⁸ Upward pressure on the Moroccan dirham, resulting in part from privatization-induced demand for dirhams and in part from the use of a fixed currency basket to set the value of the dirham, led authorities to modify the basket peg and devalue the dirham by 5 percent in 2001. Firms' access to international capital and foreign exchange markets has improved greatly in recent years, but access for individuals is not completely liberalized.

The dirham's appreciation has increased the price of domestic non-tradable factors of production relative to the price of tradables. This lowers the relative domestic price of imported commodities compared with local labor. In foreign exchange terms, viewed from abroad, Morocco's wages look more expensive than they would otherwise and compare unfavorably to the wage/productivity ratios of other countries.³⁹ Overvaluation thus also contributes to a substitution of imported equipment for domestic labor. A more flexible exchange rate policy would help to remove the anti-labor cost bias, increase absorption of labor into growth sectors, and increase the competitiveness of Morocco's exports.

CHILD LABOR

Morocco is a signatory of International Labor Organization (ILO) Convention 138 on the prohibition of child labor and ILO Convention 182, which calls for an immediate ban on the worst forms of child labor. According to a 2001 U.S. State Department country report, child labor is prevalent in Morocco.⁴⁰ Children are often apprenticed before age 12, particularly in the informal handicraft industry, including rug making, ceramics, woodworking, metal

³⁸ IMF, "Morocco: 2001 Article IV Consultation – Staff Report," IMF Country Report No. 01/205, November 2001.

³⁹ World Bank and Moroccan Ministry of Commerce, Industry, Energy, and Mines. Moroccan Manufacturing Sector at the Turn of the Century. Washington, D.C., February 2002.

<http://rru.worldbank.org/countryassessments/documents/Morocco/morocco-final.pdf>

⁴⁰ See 2001 country report on economic and trade practices in Morocco available at www.state.gov/ (www.state.gov/documents/organization/8188.pdf)

working, and leather goods. According to some observers, child labor occurs mostly in rural areas because of the higher concentration of poverty and the great distances involved in traveling to school. Children are also employed informally as domestics and usually receive little remuneration.

Morocco uses education (albeit limited in outreach), public information campaigns, and labor inspections to address the problem of child labor.⁴¹ The government's goal for primary school enrollment in 2002-2003 is 100 percent and it has launched a media campaign to remind Moroccans that education is compulsory for children between the ages of 6 and 15. Morocco's Labor Code now specifies 15 years as the youngest age for employment. Ministry of Labor inspectors enforce these regulations. Enforcement is considered adequate in the formal industrialized sector, but limited in the informal sector and agriculture and rare in households.

In 1997, the Department of Non-Formal Education in the Ministry of National Education launched a program targeting out-of-school youth. The program's pilot program in the Fez artisanal crafts industry delivers several hours of instruction to employed children during their regular work week. This program offers the greatest hope for reaching out-of-school children who reside in more densely populated (urban) environments, and who can thus be reached more easily. In conjunction with NGOs, the Ministry of National Education also offers basic education and agricultural training to children, aged 9 to 11, in rural areas.

Many Moroccan and foreign non-governmental and private voluntary organizations have been working to bring attention to child labor in Morocco. In April 2002, Princess Lalla Meryem hosted the first Summit of African First Ladies on Childhood, during which a "Marrakech Declaration" was adopted. The Declaration urges African governments to promote and protect children's rights, especially for girls.

INCREASING EMPLOYMENT

Expanding employment is an important objective for the Government of Morocco. Conventional wisdom suggests that a bilateral FTA should increase Morocco's export of goods, the production of which is relatively labor-intensive, compared with U.S. exports, the production of which is relatively capital-intensive. Yet anecdotal evidence suggests that high fiscal costs associated with wages, relative to the low tax burden borne by imported capital equipment, penalizes Moroccan labor. Capital equipment imports are duty-free into Morocco, while the formal sector wage bill pays income tax and social cost contributions. As a result, capital-intensive production is favored over labor-intensive production, which reduces the

⁴¹ See "Dossier Enseignement: Education non formelle: Peut mieux faire," *L'Économiste*, 12 September, 2002. (www.leconomiste.com)

production of labor-intensive goods and works against Morocco's stated goal of increased employment.

The Moroccan Ministry of Labor is the government's focal point for employment creation and vocational training. It should improve its ability to analyze employment issues and to elaborate and manage labor market and professional relations programs. This would involve reinforcing information databases on Morocco's labor markets to track labor costs, productivity, employment gains/losses, and work conditions. It may also involve developing econometric labor market models to simulate the impact of tax policy, minimum wage policy, and non-salary costs on labor, as well as the influence of these variables on the substitutability between capital and labor, by different salary and economic activity categories.

In anticipation of a new Labor Code, the Ministry of Labor could establish a network of public and private employment offices, expand professional training, and consider creation of an institution to help foreign companies in Morocco identify and attract local employees and to help Moroccans seeking employment abroad identify foreign demand. The Ministry has expressed a need for assistance in establishing a mandatory health insurance program for formally employed labor.

WORKFORCE DEVELOPMENT

By linking skill development to the short- and long-term needs of its economy, Morocco can increase productivity and competitiveness at the national, regional, and firm level. Realistic economic development goals and assessment of global trends will help prioritize investment in education and training. Such training should cover in- and out-of-school youth preparing to enter the workforce, those already working in formal and informal sectors, and involuntarily unemployed adults, including women, excluded minorities, and the disabled.

Some sectors in Morocco have done an exemplary job in developing workforces by collaborating with trade schools and adapting curricula to their needs. Other sectors still need qualified professionals. For example, the high-tech sector has qualified engineers and entry level workers, but not enough qualified technicians. As Morocco's manufacturing sector expands into more technically sophisticated industries, such as automotive wiring, fiber-optic cabling, and microelectronics, firms are increasingly calling for skills related to product conception and design, international standards and quality, and laboratory-based research and development. Demand for sophisticated technical and business management skills, such as maintenance, strategic management, production management, planning, and logistics, is also growing. Recognizing these emerging needs, the Ministry of Labor's Department of Vocational Training sees opportunities to collaborate with U.S. community colleges, U.S. foundations, and U.S. private companies who seek to invest in Morocco and have particular training needs.

In light of the FTA, consideration should be given to providing assistance in rural vocational education and training, possibly by leveraging the experience that USAID has gained over the past five years in rural girls' education and teacher training.

Business Environment Challenges

A simple, transparent, and predictable business environment is fundamental to attracting investment, foreign or domestic. New market access opportunities under the FTA and the EUAA could increase foreign direct investment (FDI). New FDI will be useful in developing the inputs and services that will enable Morocco's export sectors to meet rules of origin under the FTA and EUAA and expand trade. But FTA-related investment growth will correlate directly with improvement in the domestic business environment. The Government of Morocco is acutely aware of problems facing investors in Morocco and has initiated some corrective actions.⁴² Government efforts in this area must be widened and deepened to make the most of FTA-related opportunities.

INVESTMENT FACILITATION

Potential foreign investors often find it difficult to acquire title to land, to secure investment approvals, permits, and licensing, and to obtain equitable treatment under taxation and accounting rules. The USAID-sponsored Investor Roadmap exercise, conducted in Morocco in 1999 and 2000, highlighted these obstacles and propelled Moroccan policymakers into action.⁴³ The creation of Regional Investment Centers (CRI), announced in January 2002, will streamline investment procedures and administrative and land reform by decentralizing decision-making authority to regional governments.

At present, Morocco has no independent foreign investment promotion agency. The Ministry of Finance has a department of foreign investment and the Ministry of Interior is establishing a parallel structure for the CRIs. Such overlap among agencies and redundant mandates in investment promotion and facilitation can be counterproductive. These two groups must collaborate closely and define their areas of responsibility. Work on a memorandum of understanding between the Ministry of Finance and the Ministry of the Interior is reportedly underway.

⁴² Foreign companies based in Morocco released the results of a survey of executive perceptions about business and investing in Morocco. See American Chamber of Commerce in Morocco, *AMCHAM 2001 Survey* (Casablanca: American Chamber, 2001), available from www.amcham-morocco.com. See also the discussion of institutional constraints on FTA-related trade and investment opportunities in Belghazi, Plunkett, and Salinger, op.cit., 2002.

⁴³ The Services Group and Pricewaterhouse Coopers, *Le Parcours de l'Investisseur au Maroc*, prepared for USAID/Morocco and the Moroccan Ministry of General Government Affairs, phases I (1999) and II (2000).

COMMERCIAL COURTS

Businesses in Morocco have long suffered from inadequate judicial services. Processing of cases through local courts' administrative systems is not timely. Recognizing that globalization is obliging Morocco's economy to adapt and integrate, Morocco's judiciary has undergone several radical changes in recent years.⁴⁴ Commercial courts were created by virtue of a 1997 law. Since 2000, USAID has provided technical assistance for commercial policy analysis support to the Ministry of Justice and operational support to the Commercial Court of Agadir, where administrative processes have improved. The Ministry of Justice indicated that experience gained through USAID's pilot project in the Souss-Massa (\$6 million) was critical in helping to obtain additional funding—approximately 275 million dirhams or US\$27.5 million—for the judiciary sector from the EU, World Bank, France, and Spain.

Replicating these positive experiences in other parts of the Kingdom will have a direct effect on the business environment and will cultivate trust between the legal and private sectors. The Ministry of Justice, however, has explained that the rapidly changing economic and judicial environments in Morocco have raised both material and human resource needs (e.g., training of judges), which some other donor assistance is helping to address.

Recommendations

HIGH PRIORITY

- ***Review Child Labor Laws and Regulations.*** Moroccan authorities should review regulations on child labor to determine whether they are consistent with internationally accepted standards. Authorities should avail themselves of international assistance programs aimed at eradicating child labor, such as those provided by the ILO's International Program on the Elimination of Child Labor (ILO/IPEC).⁴⁵ **Timing:** 2003.
- ***Simplify Investment Procedures.*** Moroccan officials should seek further assistance to get the CRIs up and running as quickly as possible. This will improve services provided to the business community by simplifying and streamlining investment procedures.⁴⁶ **Timing:** 2003-2004.

⁴⁴ M'Hammed Abdenabaoui, "La justice face à la mondialisation," mimeo (Casablanca: 2002).

⁴⁵ The U.S. Department of Labor's Education Initiative has contributed \$3 million in FY2003 to efforts to reduce child labor. This will be implemented in conjunction with the ILO's International Program on the Elimination of Child Labor (ILO/IPEC) and the Moroccan Ministries of National Education and Labor.

⁴⁶ USAID expects to issue a request for proposal to assist selected CRIs in developing their capabilities. The proposed project will also encourage regional public-private partnerships, strengthen business associations, and enhance the business climate.

- ***Strengthen Commercial Court's Ability to Update Commercial Laws and Improve the Administration of Commercial Justice.*** Commercial courts will require technical assistance to update commercial laws and improve the administration of commercial justice, and may require assistance in other areas.⁴⁷ **Timing:** 2003-2004.

MEDIUM PRIORITY

- ***Expand Ministry of Labor's Capacity to Collect Data on Labor Markets.*** To gain deeper understanding of labor market dynamics and how other macroeconomic policies affect the demand for labor, and to track the employment effects of the FTA, the Ministry of Labor should expand its capacity to collect national wage and other labor market data. The Ministry has expressed strong interest in developing a labor market model and expanding formal employment matching services, public and private.⁴⁸ **Timing:** 2003-2004.
- ***Assess Education and Training Requirements in FTA-related Sectors.*** USAID/Morocco should assess education and training needs in sectors that will either be adversely (e.g., rural, agriculture) or positively (e.g., services, manufacturing, export-oriented agriculture) affected by the FTA. The assessment would help USAID determine whether it should adjust its education program in favor of programs that improve the access of out-of-school youth to skills development and workforce training programs, especially in rural areas. **Timing:** Early 2003.

⁴⁷A two-year, \$3.2 million project awarded by USAID in November 2002 will provide technical assistance to the Ministry of Justice to update commercial laws and regulations, improve operations of the national commercial judicial system, and improve operations of the Commercial Courts (regular and appellate) in the city of Marrakech.

⁴⁸Economic models in the Ministry of Finance's Directorate for General Economic Policy also target employment as a dependent variable. The extent to which full-blown labor market models are being developed there is not known.

6. Preparing the Rural Sector for Economic Transition

Under an FTA with the United States, Morocco's industrial, services, and agricultural sectors, especially its rural sector, where poverty and economic vulnerability are already concentrated, will face heightened competition beyond that resulting from the EUAA.

Forty percent of Morocco's labor force works in the agricultural sector. Morocco's most sensitive agricultural product markets (cereals, oilseeds, and meats) are protected from extensive foreign competition. Domestic prices for these import-substitution products are stable, in nominal terms, and tariff protection of these products remains quite high, ranging from 43 percent for corn to 83 percent for wheat, 128 percent for poultry, and several hundred percent for beef and mutton meat. Reducing tariffs to zero for these staples under the FTA will lower prices and increase domestic price variability for key food and agricultural products.

While lower food prices resulting from the FTA will benefit Morocco's consumers—and many of Morocco's most vulnerable rural households are net consumers of food products—they will impose significant transition costs on the rural economy. Over the longer term, farm prices will be lower, farm activities will be less profitable, and demand for farm labor will decrease. At the same time, change in tariff structure will restore the attractiveness of some activities that had been disfavored under the old incentives system. These activities include production of durum wheat and barley, pulses, fodder, olives, and small ruminants.

Over time, labor, capital, land, and other resources will shift from low-value or low-productivity agriculture to higher value and higher productivity agriculture. This will require modernizing crops, inputs, and cropping techniques. Others resources will shift out of agriculture, finding employment either in rural, peri-urban, or urban settings in agro-processing, industry, and services.

It is not likely that all rural households will be able to adjust to such broad structural change in the Moroccan economy. Whether because of age, resource base, or location, some will be unable to shift out of import-substitution or low-productivity agriculture. A lack of education

and training hampers the mobility and alternate employment opportunities of Morocco's rural population. Without education or training, rural Moroccans cannot benefit from technical research and innovation, modernize their approach to agricultural production, improve agricultural competitiveness, or pursue employment in other sectors.

Agriculture in Morocco faces acute challenges.⁴⁹ Opinion varies about the readiness of the sector to confront stiff competition from U.S. grains, oilseeds, and meat. Representatives from the Ministry of Agriculture's livestock, crop production, and plant protection and food safety departments, as well as the National Cereals and Pulses Office (Office National Interprofessionnel des Céréales et des Légumineuses), express a certain readiness, but the Programming and Economic Affairs Department is far less sanguine about opening agricultural markets. Morocco's agricultural trade negotiators are concerned not only about U.S. Government support for U.S. farmers, but also that a 10-year phase-in will not give Morocco enough time to modernize its agricultural economy or prepare to aid those who cannot adjust.

The TCB team met representatives of the Ministry of Agriculture on several occasions during its visit in October. Despite fairly intense and frank discussions about the future of agriculture under the FTA, it was apparent that leaders in the Ministry of Agriculture do not share a common vision for modernization of Morocco's agricultural sector into another growth pole in the economy. This lack of consensus is perhaps the biggest stumbling block to setting priorities for FTA negotiations—and in preparing for economic transition. Representatives from government, business, the farm sector, and academia need to establish a dialogue to explore the prospects for increasing productivity and innovation (e.g., new crops, new technologies) within various crop and animal production and processing systems.

For example, trade liberalization will likely reduce the heavy incentive to produce wheat and shift domestic cereals production to barley cultivation, which is more suited to Morocco's low rainfall climate and more marginal lands. Barley straw is particularly valued in Morocco. When rainfall is low, straw is sold at even higher prices than grains and is the critical roughage element in ruminant rations. Under severe drought, the lack of straw is more limiting than that of grain and concentrate feedstuffs because straw cannot be imported. In fact, Morocco may need to turn its attention to development of high straw-yielding barley varieties.

In addition, climatic variability and growing demand for water resources suggest that Morocco should rethink its irrigation strategy. With drought increasingly viewed as a constant, Morocco is moving from crisis management to risk management, also suggesting a

⁴⁹ Saâd Belghazi, "Capacité de réponse de long terme du secteur agricole marocain à l'ouverture commerciale dans le cadre d'un accord de libre-échange entre le Maroc et les Etats-Unis: Accompagner les effets de restructuration par le renforcement de la formation des jeunes ruraux à l'horizon 2015," draft (mimeo, October 2002); Channing Arndt and Wallace E. Tyner, "Policy and Progress in Moroccan Agriculture: A Retrospective and Perspective," mimeo (2000); various World Bank documents.

shift in irrigation policy. For example, Morocco could gain economically if scarce water resources were allocated from low-value crops, such as sugar beet and cane, grains, and fodder, to high-value floriculture and horticulture.⁵⁰

One growth sector that holds potential for greater rural employment is tourism. Morocco's national tourism strategy seeks to increase the number of annual visitors to Morocco from 5 million to nearly 10 million while diversifying tourism offerings.⁵¹ A number of donors, including the U.S. Trade and Development Agency (USTDA) and USAID, are involved in aspects of tourism sector development.⁵² USTDA will send a definitional mission to Morocco in January 2003 to evaluate several tourism infrastructure projects and develop terms of reference for feasibility studies.⁵³

A comprehensive economic transition strategy will provide the human, physical, and institutional infrastructure needed to ease resource shifts and mitigate adjustment effects. Strategy development, however, must begin now. Otherwise Morocco may face increased poverty, especially in rural areas. A rural transition strategy needs to address directly the physical and human infrastructure, local government, and business environment needed to promote the smooth transition of labor into non-agricultural employment in small and medium enterprises around the country.

For example, "social safety nets" may be required to aid those least likely to benefit from the transition to a post-FTA economy. The resources required for non-targeted or even targeted aid schemes could be substantial. Nevertheless, preparing social safety nets is important to consensus-building and should be considered. Increasingly, the World Bank's global portfolio includes social protection or safety net operations, ranging from cash and in-kind transfers to public works, employment generation, and insurance schemes. Morocco's leaders should consider seeking World Bank assistance as they devise a transition strategy.

One potential safety net component under discussion between Morocco's Ministry of Agriculture and the World Bank involves moving from indirect support for agriculture through tariff protection, which generates additional farm income estimated at Dh 7-8 billion per year, to direct income support. Mexico has used direct support since 1994 under the

⁵⁰ Active in water management in the Souss-Massa region, USAID has helped to shift the policy approach from water supply to water demand management. Its Integrated Water Management Project addresses Morocco's looming water shortage through a program to decentralize financial and planning authority for water resources to river basin authorities.

⁵¹ For implementation of this strategic objective, see Ministry of Economy, Finance, Tourism, and Privatization, "Accord d'Application de l'Accord Cadre 2001-2010" (Agadir: 29 Octobre 2001). Morocco's *2001 Annuaire Statistique* indicates that 4.1 million visitors residing outside of Morocco entered the country as tourists in 2000. Of these, 1.6 million were visitors of Moroccan citizenship residing overseas and 2.5 million were of foreign nationality.

⁵² A \$3.1 million contract was signed in November 2002 in support of USAID's Tourism Capacity Building and Rural Tourism Development Program.

⁵³ The USTDA promotes American private sector participation in developing and middle-income countries, with emphasis on economic sectors that represent significant U.S. export potential. For a sampling of recent activities undertaken in Morocco with USTDA funding, see www.tda.gov/region/africa.html.

PROCAMPO and PROGRESA programs, and Turkey recently adopted this approach as well.⁵⁴

To build support for its transition strategy, Morocco's top decision makers will need to explain it to Morocco's private firms, labor unions, agriculturalists, non-governmental groups, media, and broad civil society. That explanation will be facilitated if the strategy and corollary policy changes are based on sound analysis of local quantitative and technical information, astute interpretation of the domestic political economy that takes into account the relative magnitudes of potential impacts, and careful application of international best practices.

Recommendations

HIGH PRIORITY

- ***Prepare Now for Economic Transition, Especially in Agriculture/Rural Sector.*** Moroccan officials need to prepare for economic transition, especially transition in the agriculture/rural sector.⁵⁵ A coherent strategy for meeting the challenges of transition will involve adjustments in a number of policies—macroeconomic, budgetary, land, trade, pricing, irrigation, agricultural research and extension, food subsidy, food safety and quality standards regulations, labor, natural resource management, and education and training. Models for a transition strategy have been prepared with support from the World Bank. Political buy-in from Morocco's leadership, and communication and dialogue with Moroccan stakeholders is essential. To aid understanding of the magnitude of the sectoral shifts and to disaggregate the potential impacts of these shifts by political economic interests, Moroccan policymakers should evaluate various scenarios to determine which producers will feel the greatest adjustment pressures. Rural census data, which have been collected but never properly analyzed, should be revisited to disaggregate household classes by size, region, sources of on- and off-farm revenue (including access to agricultural

⁵⁴ Elisabeth Sadoulet, Alain de Janvry, and Benjamin Davis, "Cash Transfer Programs with Income Multipliers: PROCAMPO In Mexico," FCND Discussion Paper No. 99 (Washington, D.C.: International Food Policy Research Institute, January 2001); Elisabeth Sadoulet and Alain de Janvry, "Alternative Targeting and Calibrating Schemes for Educational Grants Programs: Lessons from PROGRESA," mimeo, University of California at Berkeley, June 20, 2002.

⁵⁵ Morocco's Ministry of Agriculture may choose to program some of the resources available under a local currency fund it manages jointly with USAID for this purpose. Four activities have been tentatively identified for financing via this fund: (1) identification of opportunities for marketing and increasing the value-added of agricultural and agro-industrial products for which Morocco has a comparative advantage in foreign markets; (2) identification of agricultural sector adjustment policy options, taking account of climatic and market risks and water scarcity, to help Morocco's agricultural sector transition under the FTA; (3) elaboration of an agricultural biotechnology strategy to reduce the time required to introduce new varieties into Morocco and to improve the biodiversity of genetic resources of arid zone crops; and (4) the establishment of strategies and approaches for sustainable agriculture, particularly in Morocco's arid zones with fragile ecologies. See USAID-Government of Morocco, "Convention d'aide au secteur agricole en appui à l'Accord de libre-échange entre les Etats-Unis et le Maroc." (Draft, November 2002).

credit), and net consumption status (i.e., the extent to which the farm household is a net seller or net buyer of foodstuffs). **Timing:** 2003.

- ***Expand Tourism Sector, including Rural Tourism, as Alternative Employment Option.*** The Government of Morocco has launched a national tourism strategy. Increasing the number of international visitors to Morocco each year will require, among other things, analysis of the policy environment governing access to air space, hotel reservations, tour guiding; development of new consumer products; investments in facilities and expansion of rural physical infrastructure; and workforce training. **Timing:** 2003-2004.
- ***Devise Rural Safety Net Strategy.*** Moroccan officials should develop a safety net strategy for the most vulnerable rural households. Some combination of income support, consumption support, rural public works employment creation, insurance schemes, or other social safety nets may be needed for some period to help households cope with the potential negative effects of liberalization and economic change. **Timing:** 2003.
- ***Evaluate Feasibility of a Direct Agricultural Income Support Program.*** Morocco needs to evaluate the social and political feasibility, effectiveness, and potential cost of a direct agricultural income support program. The World Bank has indicated its willingness to support further consideration of this idea in Morocco. **Timing:** 2003.

7. Conclusions

Morocco's trade capacity-building needs are considered from a number of distinct perspectives in this report. More than 100 government, private sector, NGO, and development donor agency representatives shared their views with the TCB team. In addition, the team integrated its own perspectives on the trade negotiation, economic, commercial, and political economy challenges facing Morocco as it prepares to open formal FTA discussions with the United States. Activities are recommended here for each stage of the FTA process—preparing to negotiate, implementing FTA-related commitments once negotiations are concluded, responding to commercial opportunities created by the FTA, addressing the macroeconomic and business environment challenges, and preparing the rural sector for the economic transition ahead. Some recommendations involve foreign assistance, ranging from short training sessions to multi-year technical assistance projects. Others involve analysis, consensus-building, and outreach to diverse stakeholders, which may best be undertaken without foreign facilitation. Or a blended approach may be advisable once Moroccans have the capacity to define an analytic agenda for themselves, but need assistance in locating international reference data and documents.

Some recommended activities should begin as soon as possible to help negotiators prepare or prioritize their negotiating positions. Other activities can begin only after negotiations are completed. USAID, the U.S. Department of Labor, or other U.S. Government agencies have already initiated a few of the recommended activities.

We have ranked recommended activities as “high” or “medium” priority. High priority activities are those that, in the team’s estimation, will address one of two key objectives: (1) facilitate FTA negotiations or (2) help markets perform better and aid private companies in responding to opportunities created by the FTA.

Table 1 summarizes the individual activities described in each chapter and proposes timelines for each. In some instances, the timeline extends to 2009, reflecting the fact that USAID/Morocco is preparing a strategic plan for the 2004-2009 period.

Table 1

Assessment of Morocco's FTA-related Trade Capacity- Building Needs—Summary of Proposed Activities and Timeline

Recommendations, by Chapter and Priority		Timeline
2. P R E P A R I N G T O N E G O T I A T E T H E F R E E T R A D E A G R E E M E N T		
High Priority		
1 Prepare sectoral economic issues papers		Early 2003
2 Conduct familiarization trip for negotiators		Early 2003
3 Conduct training seminar on U.S. trade policy		Early 2003
4 Create an interagency committee for e-commerce		Early 2003
5 Undertake an environmental impact assessment		Early 2003
Medium Priority		
6 Gather information on sectoral impacts of liberalization options		2003
7 Involve private sector and NGOs in domestic trade policy formulation		Early 2003
8 Develop statistical base and study impact of GATS and other liberalization on services in the domestic economy		2003
9 Seek training in services negotiations		2003
10 Make government procurement more predictable		2003
3. I M P L E M E N T A T I O N O F F T A - R E L A T E D C O M M I T M E N T S		
High Priority		
11 Identify legislative and administrative actions needed to implement the FTA		2004
12 Conduct training in rules of origin, new customs requirements		2004
13 Enhance IPR enforcement		Early 2003
14 Protect confidentiality of data in patent applications		Early 2003
15 Regulate IPR for animal stock and plant varieties		Early 2003
16 Conduct training in environmental assessments, inspections, and decisions		2003
17 Develop means of enforcing environmental legislation		2003-2006
18 Conduct training in labor law		2003-2006
19 Review occupational health and safety laws		2003
20 Seek assistance for competition law enforcement		2003-2006
Medium Priority		
21 Use electronic documentation and translate customs regulations into English		2004
22 Identify institutional actions and devise rules for new administrative organizations		2004
23 Advertise procurements broadly and streamline bidding		2003
24 Conduct procurement training		2004
25 Communicate safety and quality standards and conduct training		2003-2006

Recommendations, by Chapter and Priority		Timeline
4. RESPONDING TO OPPORTUNITIES CREATED BY THE FTA		
High Priority		
26	Improve capacity to identify market and export opportunities	2003-2009
27	Improve productivity and increase investment in livestock sector	Through 2009
28	Improve cold chain infrastructure	2003-2006
29	Accelerate implementation of SPS reforms	2003-2006
30	Develop new financial instruments for SME sector	2003-2009
Medium Priority		
31	Familiarize processors and agribusinesses with U.S. inspection systems	2003-2009
32	Improve communication between Ministry of Agriculture headquarters and inspectors	2004
5. MACROECONOMIC AND BUSINESS ENVIRONMENT CHALLENGES AND THE FTA		
High Priority		
33	Review child labor laws and regulations	2003
34	Simplify investment procedures	2003-2004
35	Strengthen commercial court's ability to update commercial laws and improve administration of commercial justice	2003-2004
Medium Priority		
36	Expand Ministry of Labor's capacity to collect data on labor markets	2003-2004
37	Assess education and training requirements in FTA-related sectors	Early 2003
6. PREPARING FOR THE ECONOMIC TRANSITION		
High Priority		
38	Prepare for economic transition, especially in agriculture/rural sector	2003
39	Expand tourism sector, including rural tourism, as alternative employment option	2003-2004
40	Devise rural social safety net strategy	2003
41	Evaluate feasibility of a direct agricultural income support program	2003

The TCB team has estimated indicative resource requirements on the order of \$39.5 to \$48.3 million to support this entire program (Table 2). This range covers the 41 recommendations listed here. It does *not* include resources to implement several activities, evaluations, or assessments that are recommended (e.g., workforce development program, rural social safety net program, agricultural income support program). It also does *not* include several other activities in micro-finance, water management, basic education, and democracy and governance that USAID/Morocco is considering.

Table 2
Assessment of Morocco's FTA-related Trade Capacity- Building Needs—Indicative Resource Requirements

Recommendations, by Chapter and Priority	Range (US\$)	
	Low	High
2. PREPARING TO NEGOTIATE THE FREE TRADE AGREEMENT		
High Priority	\$ 900,000	\$ 1,100,000
Medium Priority	\$ 700,000	\$ 800,000
3. IMPLEMENTATION OF FTA - RELATED COMMITMENTS		
High Priority	\$ 3,700,000	\$ 4,500,000
Medium Priority	\$ 1,000,000	\$1,200,000
4. RESPONDING TO OPPORTUNITIES CREATED BY THE FTA		
High Priority	\$ 19,600,000	\$ 23,900,000
Medium Priority	\$ 1,200,000	\$1,500,000
5. MACROECONOMIC AND BUSINESS ENVIRONMENT CHALLENGES AND THE FTA		
High Priority	\$ 5,700,000	\$ 6,900,000
Medium Priority	\$ 900,000	\$ 1,100,000
6. PREPARING FOR THE ECONOMIC TRANSITION		
High Priority	\$ 5,900,000	\$ 7,200,000
TOTAL	\$ 39,500,000	\$ 48,300,000

Appendix A. Contacts

MOROCCAN GOVERNMENT

Ministry of Foreign Affairs and Cooperation

Ali Achour, American Affairs

Taïeb Fassi-Fihri, Deputy Minister

Houda Marrakchi, USFTA Working Group

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Ministry of Commerce, Industry, Energy, Mines

Abdelkarim Abouyoub, Agribusiness, Centre Marocain de Promotion des Exportations

Mohamed Benayed, Secrétaire Général, Conseil National de Commerce Extérieur

Larbi Benazzouk, Enterprise restructuring (*Mise à niveau*) (Industry)

Mounir Bensaid, Director, Centre Marocain de Promotion des Exportations

Hassan Benseddik, Imports, Policy (Foreign Trade)

M. Bouazzaoui, Moroccan Office for Industrial and Commercial Property (OMPIC)

Larbi Bourabaa, Textiles & leather, Centre Marocain de Promotion des Exportations

Abderrahim Chakour, Chemicals (Industry)

Mourad Cherif, Président, Conseil National de Commerce Extérieur

Said El Alami, Agrofood processing (Industry)

Lamyea El Ismaili, Textiles (Industry)

Jamal El Jamali, Industry

Zineb Filali, Exports, Policy (Foreign Trade)

Najib Kalai, Trade information (Foreign Trade)

M. Nejjar, Norms and Standards (Industry)

Naïma Noucair, Bilateral Trade Relations (Foreign Trade)

M. Ouadhir, Moroccan Copyrights Office

Khalid Sayeh, Foreign Trade

El Hassan Jouaouine, Services (Foreign Trade)

Mohamed Soulaimani, Centre Marocain de Promotion des Exportations

Ministry of Agriculture, Rural Development, Water, and Forests

Hassan Asserghin, Programming & Economic Affairs

M. Bada, Livestock

Hassan Benabderrazik, Secretary General

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M. Bentouhami, Livestock

Amal Brittel, Programming & Economic Affairs

M. Guedira, National Interprofessional Office for Cereals and Pulses (ONICL)

Abderrahmane Hilali, Crop Protection, Technical Control, and Food Safety

Moha Marghi, Crop Production

Ahmed Sbihi, Livestock

Hassan Serghini, Programming & Economic Affairs

Ministry of Economy, Finance, Privatization, and Tourism

Hassan Bernoussi, Investment Promotion

Najib Hajoui, Privatization

Hassan Kacimi, Tourism

Abdeltif Loudyi, Treasury

Abderazzak Mossadeq, Customs Administration

Mohammed Tawfik Mouline, General Economic Policy

Mohamed Taher Moumen, Government Procurement (Contrôle Général des Engagements de Dépenses de l'Etat)

Laiila Sbiti, Investment Promotion

Bahia Omari, Privatization

Ministry of Labor, Vocational Training, Social Development, and Solidarity

Secretary General, Employment and his directors (Employment, Fight Against Illiteracy, Human Resources, Inspector General, MEDA Project, Social Affairs, Surveys and Studies,...)

El Hassane Benmoussa, Secretary General, Professional Training

General Government Affairs

Najat Rochdi, Small and Medium Enterprises

Soumiya Iraqui, Small and Medium Enterprises

M. Amara, Prices and Competition

Ministry of Territorial Infrastructure, Urban Areas, Housing, and Environment**(Department of the Environment)**

Ahmed Ben Rahal Bouhaouli, Secretary General

Tahar Balafrej

Brahim Zyani, Environmental Regulation

Ministry of Maritime Fisheries

Ahmed Fassi Fihri, Maritime Fishing Industries

Mohamed Taoufiq, Investments and Programming, Maritime Fishing Industries

Aomar Cherqaoui, Office National des Peches

Mostafa Faïk (Ministry of Fisheries), College of Inspector Generals

State Secretariat for Telecommunications (SEPTI)

Abdelghani Loutfi, Planning

Ministry of Justice

M. Ghazali, Secretary General

Ministry of Education

Habiba El Bouazzaoui, Non-Formal Education

Hassan Amrani, Agence du Nord

PRIVATE SECTOR

M. Abaroudi, Confédération Générale des Entreprises du Maroc (CGEM)
 Féderations des Chambres de Commerce et d'Industrie

Associations

M. Arrobas, Association marocaine des industries du textile et de l'habillement (AMITH)

M. Akrim, Association des Producteurs et Exportateurs des Fruits et Légumes (APEFEL)
 (Agadir)

Ahmed Azirar, Moroccan Association of Exporters (ASMEX)

M. Berrada, AMITH

Jaouad Hamri, AMITH

Salah Mezouar, AMITH

M. Tamer, AMITH

M. Zakri, Groupement Régionale d'Intérêts Touristiques (GRIT) (Agadir)

American Chamber of Commerce, FTA Committee

Marcos Arrobas, Jordache

Lawrence DeWitt (FTA Committee chair), CMS

Majid Iraqui, CMS

Ramas Pressad, Jordache

Nuhad Saliba, Citibank

Danielle Tobias, Laprophane

Pfizer Laboratories

Procter & Gamble

MOROCCO-BASED DONOR COMMUNITY

USAID

James Bednar, Mission Director

Jaouad Bahaji, Environment

Monique Bedaoui, Education

Abderrahim Bouazza, Program Office

Dan Gowen, Program Office

M. Hannafi, Environment

Peter Kresge, Democracy & Governance, Education

Richard Rousseau, Economic Growth

U.S. Embassy

Ambassador Margaret Tutwiler, Chief of Mission

Helen La Lime, Deputy Chief of Mission

George Aldridge, Labor

Abdelali Aziz, Agriculture

Merritt Chesley, Agriculture

Peter Haas, Economics

Chris Martin, Political

Roberto Powers, Consul General

Magda Siekert, Public Affairs

Gail Stanford del Rosal, Foreign Commercial Service

Charles Wintermeyer, Political

European Commission

Mme. Rosamaria Gili, External Relations

World Bank

Pedro Alba, World Bank country team, Washington

Karim El Aynaoui, World Bank country team, Washington

Carole Brookins, U.S. Executive Director

Jennie Litvack, World Bank Resident Mission, Rabat

Christopher Ward, World Bank Resident Mission, Rabat

International Finance Corporation

Joumana Cobain, North Africa Enterprise Development

Margaret Henderson, Chief, Strategy and Coordination, Middle East and North Africa

International Monetary Fund

Domenico Fanizza (Washington)

Appendix B. Links to U.S. Trade Information

Type of Information and Source	Internet Address
U.S. Government's International Trade Data System, including links to the Harmonized Tariff Schedule.	www.itds.treas.gov .
Recent U.S. trade legislation <ul style="list-style-type: none">• <i>Trade and Development Act of 2000</i>• <i>Trade Act of 2002 (H.R. 3009 ENR.)</i>	www.otexa.ita.doc.gov/Trade_Act_2000.htm Library of Congress website http://thomas.loc.gov (type H.R. 3009 in the bill number search box).
Information on existing U.S. FTAs <ul style="list-style-type: none">• <i>1985 U.S.-Israel Free Trade Agreement</i>• <i>1994 North America Free Trade Agreement</i>• <i>2001 U.S.-Jordan Free Trade Agreement:</i>	www.mfa.gov.il/mfa/go.asp?MFAH00ub0 www.mac.doc.gov/nafta/nafta3.htm and www.customs.treas.gov/impoexpo/nafta_new.htm www.ustr.gov/regions/eu-med/middleeast/US-JordanFTA.shtml
Information on U.S. preferential trade schemes <ul style="list-style-type: none">• <i>Africa Growth and Opportunity Act</i>• <i>Andean Trade Partnership Act</i>• <i>Caribbean Basin Trade Partnership Act</i>	www.agoa.gov www.mac.doc.gov/atpa/webmain/intro.htm www.mac.doc.gov/CBI/webmain/intro.htm
Information on pending U.S. trade agreements <ul style="list-style-type: none">• <i>Free Trade Area of the Americas</i>• <i>Other bilateral agreements</i>	www.ustr.gov/regions/whemisphere/ftaa.shtml www.ustr.gov/regions/index.shtml

Type of Information and Source	Internet Address
The U.S. International Trade Commission conducts trade-related investigations for the U.S. Government. It publishes findings on antidumping and countervailing duties, safeguards, unfair practices, import-injury, intellectual property infringement, as well as general fact-finding.	www.usitc.gov
U.S. regulations on animal and plant health safety for imported products are available from the Animal and Plant Health Inspection Service of the U.S. Department of Agriculture.	www.aphis.usda.gov
Food safety regulations are the responsibility of the U.S. Food and Drug Administration	www.fda.gov
Detailed trade flows in and out of the U.S. are available from the U.S. Census Bureau's USA Trade Online Service, for a fee.	www.usatradeonline.gov
Monthly trade data by country and by product are available through the three-digit SITC level from the U.S. Census Bureau's website.	www.census.gov/foreign-trade/statistics/index.html See also www.ita.doc.gov/td/industry/otea/
Agricultural production and trade statistics are available from the U.S. Department of Agriculture's Economic Research Service	www.ers.usda.gov
Non-agricultural data can be found at the U.S. Department of Commerce's International Trade Administration separate industry offices.	www.ita.doc.gov/siteindex.html
Textiles trade information, for example, is available from Commerce's Office of Textiles and Apparel (OTEXA)	www.otexa.ita.doc.gov

Appendix C. TCB Assistance Provided by Other Donors in Morocco

Before the TCB team arrived in Morocco, USAID/Morocco met with 17 foreign embassies and development donor agencies to understand TCB assistance provided to Morocco. Interviews were held with multilateral agencies (European Union, FAO, UNDP, UNIDO, World Bank, World Food Program) and bilateral agencies (British Embassy, Belgium Embassy, Canadian International Development Agency, Italian Cooperation Agency, Agence Française de Développement, German Embassy, German Technical Cooperation Agency, Japanese Embassy, Japanese International Cooperation Agency, Spanish Embassy, Spanish Agency for International Cooperation). The TCB team met with the two largest multilateral donor organizations in Morocco, the European Commission and the World Bank, to understand their TCB work.

World Bank

World Bank lending activity in Morocco has fallen off significantly since the 1980s and 1990s. This is not surprising given the depth of Morocco's external reserves and the ample supply of concessional grant funds from the European Union. The World Bank now provides more "knowledge support" in the form of sector-level analysis and consensus-building for poverty analysis, rural service delivery, and rural sector development. The World Bank has worked extensively in Morocco's rural sector since the 1980s, providing a series of agricultural sector adjustment and investment loans, but its attempts to develop Moroccan consensus for an integrated rural sector development strategy in the mid-to-late 1990s were not successful.

More recently, the World Bank has resumed dialogue with the Ministry of Agriculture about growth scenarios and options for liberalizing the agricultural price support system while maintaining border-neutral income support to farmers. The World Bank was an important supporter of such a policy shift in Mexico, coupling grants to vulnerable households with

support for education, just as the North America Free Trade Agreement entered into force. Internal discussion in the Ministry of Agriculture has been lively, and the Bank has proposed an informational visit to Turkey or Mexico to Moroccan policymakers. Because the Turkish program may be too new to evaluate, a trip to Mexico, perhaps in February 2003, would be more useful. The World Bank supports rural sector analysis by a number of Moroccan and external advisers.

The Bank also is considering design of a rural sector safety net, looking across a number of Moroccan ministries and institutions, to buoy the more vulnerable elements of the rural economy (small households and landless laborers, disaggregated by region), should agricultural tariffs be lowered.

European Commission

The EU's MEDA program finances transition assistance associated with the EUAA. In Morocco, the contribution of MEDA funds has been delayed. Originally expected upon implementation of the Association Agreement in 2000, the funds will be available in early 2003, according to a recent EU announcement (*Le Matin*, October 11, 2002). MEDA in Morocco expects to focus on four themes: access to credit, especially for small and medium enterprises (30 million euros); labor training (73.6 million euros); production quality; and access to management consulting. Credit activities will include a guaranty fund for SMEs to strengthen competitiveness in this sector, as well as training in the financial sector to increase its outreach to the SME sector. Other MEDA initiatives include a technical schooling and professional training project, a quality assurance promotion program, assistance to reinforce professional associations, strengthening of employment office operations, and other activities. MEDA funds also support a program to build national economic modeling capacity in the Ministry of Finance to evaluate the impacts of the agreement, launched in September 2002.

Other Donor Organizations

According to the Organization for Economic Cooperation and Development, Morocco's net development assistance fluctuated between \$400 and \$680 million between 1998 and 2000. The top ten donors were France, European Commission, Japan, Germany, Spain, United States, Belgium, IFAD, Canada, and Italy. Averaged over the period, Morocco's lead donor is France (\$231 million), followed closely by the European Commission (\$221 million). At \$36 million per year, the United States is sixth. USAID staff surveyed the donor community in Morocco about assistance related to TCB, and provided the TCB team with detailed notes and matrices organized by donor and by theme. Actual resource contributions are difficult to compare across donors because information about implementation periods is incomplete.

AGRICULTURE, FISHERIES, AND AGRIBUSINESS

In the agricultural sector, the European Commission supports Morocco's Agricultural Development Fund to promote private investment in the agricultural sector, innovation, and improved storage and transportation practices. USAID expects to support an agricultural policy adviser and other technical assistance to the Ministry of Agriculture in support of FTA-related work. Spain is prepared to help with the improvement of an agricultural insurance system that will elaborate a specific instrument to cover the risks of drought and other weather-related damage. Germany funds a program to improve agro-food product quality, and to reinforce the role of a consumers association. Several donors, including the FAO, World Bank, Italy, Japan, and Spain, are working in the fisheries sector.

BUSINESS AND TRADE

The European Commission is providing several hundred million Euros, over a period that began before implementation of the EU Association Agreement (EUAA) and that extends into 2007, to harmonize legislation, norms, and standards between Morocco and the EU, address transport reform, help Moroccan firms restructure to improve their international competitiveness (including attention to quality), continue Morocco's privatization program, reinforce professional associations, and reinforce the capacity of Morocco's Ministry of Finance to model the effects of the EUAA on Morocco.

World Bank activities in business and trade consist of small, catalytic projects that test new institutional mechanisms for the delivery of services and that promote innovative approaches. The Bank is active in information sector development, infrastructure and regulatory environments, as well as private sector development, with emphasis on enterprise competitiveness and workforce development.

UNIDO is focusing on workforce development and improved institutional capacities in agribusiness; chemical, electrical, and mechanical engineering; as well as management and entrepreneurship.

The Canadian, French, German, and Italian development programs also emphasize workforce development and competitiveness, as well as support to small and medium enterprises.

USAID is working to build the capacity of selected institutions (such as professional associations) that provide essential services to private enterprises, promote enterprise expansion, and facilitate domestic and regional investment.

ENVIRONMENT

The USAID survey identified two UNIDO-sponsored activities related to the environment. One addresses minimizing industrial waste and the other promotes investment, development, and transfer of clean technologies.

INFRASTRUCTURE DEVELOPMENT

World Bank activities include assistance to develop a new framework for Morocco's energy and railroad sectors that will encourage private sector entry, as well as the preparation of an asset management reform project that will focus on new strategies for land/real estate market development.

The U.S. Trade and Development Agency is assisting Morocco with a feasibility study for the development of a transition plan for Morocco's air traffic management, covering communication, navigation, and surveillance issues.

Spain is contributing to infrastructure development in the north of Morocco, including rehabilitation of markets, management capacity support to the regional development agency (Agence du Nord), ports, and energy co-generation.

The Japanese and French are involved in mining sector development issues. The French are also involved in thermal and wind-powered energy development.

LABOR

The U.S. Department of Labor will contribute to a three-year collective bargaining project under the International Labor Organization that will enhance collective bargaining skills of government, labor, and management representatives. Sectoral emphasis will be on agribusiness, construction, and tourism.

LEGAL AND JUDICIAL SYSTEM REFORM

The European Commission, USAID, and World Bank are the three key donors in this area. Stimulated by USAID's original pilot project in this area, all three donors are now working to improve the judicial system, strengthen its capacity to adjudicate commercial cases, strengthen dispute resolution capabilities of the judiciary, and re-engineer administrative process to promote and facilitate private investment.

SERVICE SECTORS

The European Commission is involved in three projects in the financial sector to increase sector efficiency, consolidate equity capital funding of enterprises in industrial and service

sectors, and improve access to capital for Morocco's SMEs. France is also participating in four investment funds to support SME development. Several donors, including the World Bank, the EU, UNDP, and USAID, are working with Morocco to foster new tourism sector dynamism in coastal and rural zones. Spain is contributing to rehabilitation of the Tangier Tourism Institute.

Glossary

AGOA	African Growth and Opportunity Act
AMITH	Association marocaine des industries du textile et de l'habillement
APEFEL	Association des Producteurs et Exportateurs des Fruits et Légumes
APHIS	Animal and Plant Health Inspection Service
ATPA	Andean Trade Partnership Act
CAP	Common Agricultural Policy
CBTPA	Caribbean Basin Trade Partnership Act
CGE	Computable general equilibrium
CGEM	Confédération Générale des Entreprises du Maroc
CRI	Centres régionaux d'investissement
DOL	U.S. Department of Labor
EACCE	Exports Control and Coordination Agency
EU	European Union
EUAA	European Union Association Agreement
FDA	U.S. Food and Drug Administration
FNAM	Fédération Nationale des Associations de MicroCrédit
FDI	Foreign direct investment
FTA	Free trade agreement
FTAA	Free Trade Area of the Americas
FTC	Federal Trade Commission
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GPA	Government Procurement Agreement
GSP	Generalized System of Preferences
GRIT	Groupement Régionale d'Intérêts Touristiques
ILAB	Bureau of International Labor Affairs
ILO	International Labor Organization
IPEC	International Program on the Elimination of Child Labor
IPR	Intellectual property rights

IT	Information technology
ITC	International Trade Centre
MFI	Micro-finance institutions
NAFTA	North American Free Trade Agreement
NGO	Non-governmental organization
QIZ	Qualifying Industrial Zone (Jordan)
SME	Small and medium enterprises
SPS	Sanitary and phytosanitary standards
TCB	Trade capacity building
UNCTAD	United Nations Council on Trade and Development
USAID	U.S. Agency for International Development
USTDA	U.S. Trade and Development Agency
WTO	World Trade Organization