# Opening Doors to the World

## A New Trade Agenda for the Middle East

dited by
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## *A New Trade Agenda for the Middle East*

Edited by Raed Safadi



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# Contents

**Bachir Hamdouch**

# The Free-Trade Area Between Morocco and the European Union

## Introduction

The relations between Morocco and the European Union (EU) date back to the latter's establishment. These relations have faced growing difficulties over the past decade, mainly as a result of the enlargement of the EU to include those Mediterranean countries that compete directly with Morocco (Greece, Portugal, and especially Spain), the constraints imposed by the EU's Common Agricultural Policy (CAP), and the erosion of trade preferences in the wake of the Uruguay Round.

Along with its continental preoccupation and in parallel with its continued enlargement, the EU has developed a strategic interest in the Mediterranean Basin as a whole and, in particular, in those countries lying in the South Mediterranean, Morocco included. It is in this context that the EU has proposed a new mode of association with Morocco and other Southern Mediterranean countries. Central to this new mode of association is the creation of a free-trade area. But what are the issues at play and the likely consequences of such an agreement in the case of Morocco? These are the questions that this chapter will attempt to answer.

The Agreement was signed in February 1996 and it will come into force following ratification by all EU states. The issues underlying the EU-Morocco Association Agreement are both economic and geopolitical. This necessitates a retrospective review of the historical relations between Morocco and the EU and the difficulties encountered over time.

## A Historical Overview of the EU-Morocco Relations

The EU-Morocco relations date back to the former's creation in its original form – the European Economic Community – in 1957. Indeed, particular provisions regarding relations with Morocco (and also with Tunisia) were already included in the Treaty of Rome. Two subsequent Agreements have regulated such relations: the 1969 Association Agreement and the 1976 Cooperation Agreement. However, neither Agreement resulted in improved EU-Morocco relations.

### *The Treaty of Rome*

Two texts annexed to the Treaty of Rome made explicit reference to Morocco.

The first one was a Protocol. It stipulated that "the application of the treaty establishing the European Economic Community does not require any modification of the customs regime applied, at the outset of the implementation of the treaty, to France's imports originating in Morocco".[1] The customs regime referred to was that of customs exemptions applied to the vast majority of Morocco's exports to France.[2] Such exports consisted almost entirely of food products (cereals, fruits, vegetables, canned goods), raw materials, and semi-finished goods. Exports to France represented roughly 50 percent of Morocco's total exports.

The Protocol thus allowed the application of unilateral advantages that were being threatened by the establishment of the European Community (such as the common external tariff and the common agricultural policy). Therefore, the Protocol was meant to cover a transition period that would evolve quickly into an association regime with the Community.

The planned association regime was defined in the second text annexed to the Treaty of Rome – the "Declaration of Purpose" which stipulated that the six members of the European Community:

> Taking into account the Agreements and covenants of an economic, financial and monetary nature concluded between France and the other independent countries belonging to the Franc zone,
> Intent on maintaining and intensifying the traditional exchange links between the member states of the European Economic Community and the independent countries as well as contributing to the latter's social and economic development,
> Declare themselves ready, from the onset of implementation of the Treaty, to propose to these countries negotiations with a view to concluding economic association Agreements with the Community.[3]

### *The Association Agreement*

The 1969 Association Agreement actually turned out to be a commercial Agreement and of a limited duration (5 years). It covered only partially the commercial exchanges between Morocco and the Community, and was concluded based on the principle of reciprocity, to the extent that it stipulated advantages for both parties. The major preferences that were granted by the Community to the Moroccan exports were the following:[4]

- Exemptions for industrial products and handicrafts, with the exception of agro-industrial products and cork products. Agro-industrial products – with the notable exception of wine, fruit juices, and certain fruit and vegetable-based canned products – were nonetheless granted some preferential access in respect of the applied customs duties (the fixed element of a common tariff duty).
- As for agricultural products, only citrus fruits benefited from an 80

percent reduction of the common tariff duty, provided their prices were higher than a given reference price.[5]

- Fish products, with the exception of canned goods, benefited from customs exemptions.[6] The preferences granted to fish-based canned goods varied among European countries, from exemption of customs duties without quantitative limits in the BENELUX (Belgium, the Netherlands and the Luxembourg) to partial exemption within the context of quantitative quotas in the other countries of the Community.

From Morocco's perspective, the main preferences granted to imports of European origin were as follows:

- Exemptions from customs duties for a list of products representing three percent of total imports from the Community.
- Tariff reductions in the order of 25 percent for another list of products representing seven percent of total imports from the Community.
- Given that such tariff advantages had been accorded *erga omnes* by the 1906 Algeciras Act,[7] the Community sought to obtain exclusive advantages, and that was accomplished by the adoption of global quotas in its own favor, representing 63 percent of all imports subject to tariff duties in Morocco.

Overall, this was an Agreement with limited impact that satisfied neither party. The advantages that were made available to Morocco were diluted by the proliferation of similar preferential agreements signed with other Mediterranean countries (Spain, Portugal, Greece, Turkey, Israel, and so forth.). Negotiations were scheduled for the third year of implementation of the Agreement. In 1976 – that is, two years after the expiration of the 1969 Association Agreement – they evolved into a larger agreement, the Cooperation Agreement.

### *The Cooperation Agreement*

The Cooperation Agreement is part of a new type of more global Agreements comprising, in addition to the commercial track, other tracks including financial and technical cooperation as well as issues related to labor movement. These new aspects of the Agreement, albeit devoid of tangible and effective benefits, may be credited with initiating a new type of cooperation with a larger scope. The Agreement had unlimited duration, and the commercial track – which constituted a major portion thereof – no longer required reciprocity on the part of Morocco.

The trade preferences accorded to Moroccan exports by the nine member Market were as follows:[8]

- Maintenance of exemptions for industrial products and raw materials – again with the exception of cork products, which were subjected to a progressive ceiling.

- Agro-industrial products were still treated differently and less favorably than industrial products. They benefited generally from limited tariff reductions and were subjected to quantitative restrictions (quotas), minimum prices (reference prices) and quality conditions (as in the case of wine).
- Fish products continued to benefit from unlimited customs exemptions, with the exception of Morocco's main export product – sardines, which were subjected to minimum price conditions.
- As for agricultural products, an 80 percent tariff reduction was kept for citrus fruits, and a 40 to 60 percent preference was accorded to fruit and vegetable products although these were also subjected to seasonal restrictions (limited periods) and to minimum price conditions.

Finally, the Cooperation Agreement did not innovate as regards trade preferences. Indeed, the issues associated with Morocco's agricultural and agro-industrial exports to the European Community remained unresolved. These issues became more pressing following the accession of Greece, Portugal, and especially Spain to the Community.[9] The 1988 Adaptation Agreement – which was meant to address the issues that surfaced in the wake of the Community's second enlargement to include Morocco's trade rivals – hardly provided for new solutions.

### *The Erosion of Relations*

EU-Morocco relations have been constrained by two aspects: asymmetry and erosion. Asymmetry stems from differences in size, level of development and bargaining power between the two parties. The second aspect has been the continued erosion of privileged relations between Morocco and the European Union. Such erosion has been in fact unavoidable in light of the internal and external policy objectives of the EU, as well as the continued drive towards liberalization on a world-wide scale.

The main objectives of the EU internal policies are to establish and deepen European integration. Two aspects of such a policy with particular impact on the relations with Morocco are "Green Europe" (the Common Agricultural Policy) and "Blue Europe" (the fishing policy). On the other hand, the EU's internal policy aims at enlarging the Union by extending membership to other countries. The EU has thus evolved from six to 15 member countries,[10] and the tendency is for the Union ultimately to cover the whole of continental Europe. The enlargement of the European Union has made relations with Morocco all the more difficult. By allowing some of Morocco's trade rivals to become full EU members, the Union has raised its own self-sufficiency rate – especially as regards agricultural products – and has thus accentuated the asymmetry between the two partners.

The EU's external policy has been increasingly marked by concerns over the intensification and harmonization of relations with its Mediterranean neighbors and those of Central and Eastern Europe. The proliferation of Association Agreements that were overtaken by Cooperation Agreements, and now by Free-Trade Agreements has in fact trivialized the advantages and privileges that had at first benefited only a limited number of "associated" countries, including Morocco.

The second element that has contributed to the erosion of the once-privileged EU-Morocco relations is the globalization and liberalization of the world economy, an achievement sealed by the Final Act of the Uruguay Round (UR). The UR Agreements have lead to the reduction of trade barriers and the extension of equal treatment in international exchanges, particularly concerning access to markets. What is of importance in as far as Morocco (and some other countries) is concerned is that the EU market will become more open and less preferential. Thus, any advantages the EU has extended to imports originating from Morocco and other associated countries – particularly those industrial products benefiting from customs exemptions – will gradually disappear, as the margin of preference accorded to products originating from on the one hand countries that have concluded an Association Agreement with the EU and, on the other, those that have not, most notably Southeast Asian countries, is eroded.

It is thus evident that the EU-Morocco Cooperation Agreement no longer fulfills Morocco's aspiration for privileged relations with the EU. The stakes at play are high, and they dictate the necessity to devise a new framework of cooperation between the two entities.

## What are the Stakes?

The stakes underpinning negotiations with a view to the establishment of a new Association Agreement are very important at both the economic and geopolitical levels. What made the negotiations difficult is the fact that both parties differ in their assessment of these stakes. While for Morocco the aspirations are mostly economic in nature, for the European Union they are both geopolitical and economic.

### *The Stakes for Morocco*

The economic stakes for Morocco from privileged commercial relations with the EU are enormous. The following indicators are revealing:[11] remittances from Moroccan nationals working in foreign countries represent the main source of income as recorded in the country's balance of payments account (roughly US$ 2 billion in 1993), and over 90 percent of those remittances originate from Moroccan nationals residing in the EU. In addition, revenues from tourism are the second most important item on Morocco's balance of payments account (US$ 1.2 billion in 1993), and 80 percent of such revenues are brought in by EU citizens. Furthermore, 70 percent of all foreign private investments made in Morocco originate in Europe.[12] In sum, the European Union is Morocco's single most important commercial partner, accounting for 54 percent of Moroccan imports and 63 percent of exports in 1994. The figures are even higher if we consider some of Morocco's key exports – 83 percent of finished products (representing over 29 percent of total exports), almost 94 percent of clothing and apparel products (corresponding to 17.6 percent of exports), and over 75 percent of fresh fruits and vegetables (Table 1).

**Table l: The Importance of Moroccan Exports to the EU by Major Product Group, 1994 (percentage)**

| | EU Share in Exports | Structure of Total* Exports |
|---|---|---|
| Food Products | 60.5 | 28.0 |
| Fruits & Vegetables (not canned) | (75.2) | (5.7) |
| Energy and Raw Materials | 55.0 | 16.9 |
| Semi-Finished Products | 49.2 | 25.7 |
| Finished Products | 82.8 | 29.4 |
| Equipment | (81.1) | (3.5) |
| Consumption | (83.1) | (25.9) |
| Clothing & Apparel | (93.6) | (17.6) |
| Total | 63.2 | 100.0 |
| Share in Total Imports | 54.0 | -- |
| Coverage Ratio (Exports/Imports) % | 65.7 | -- |

*Source: BMCE (1995), Nos. 218-219.*

The enhanced integration of the EU, its continued enlargement, and its evolving policy especially where it concerns the Mediterranean have posed formidable obstacles to Morocco's exports to the EU. The successful conclusion of the Uruguay Round has made this situation even worse. In fact, the EU's offer to the GATT/WTO has created even larger barriers to the entry of Moroccan fruits and vegetables. Paradoxically, the changes in the EU's Common Agricultural Policy that were undertaken to bring the latter into conformity with the Uruguay Round Agreements have made the EU agricultural market more closed than ever before. "Tariff equivalents" have replaced "compensatory taxes" and, above all, "entry prices" (minimum prices) to be applied all year round have replaced "reference prices," which were only in force for a specified season during the year. The setting of so-called "entry prices" at high levels approaching Europe's even most marginal production lines may effectively bar the entry of Moroccan products.[13] This is what happened in the beginning of 1995 in the case of certain Moroccan vegetable exports, particularly tomatoes.[14] The same may happen in the case of citrus fruits with the application of the new regulations concerning fruits in early 1996. Even agro-industrial products, which currently benefit from preferential conditions, will be subjected to customs duties at such high levels that they will no longer be competitive in the face of major competing products coming from Spain. That is what happened to Morocco's sardine exports starting in early May 1995.[15]

Over and above such immediate and tangible risks for a wide array of Moroccan exports to Europe, a much longer-term risk has started to take shape in a world economy marked by increased regionalization and globalization. That is the risk of marginalization faced by those small economies that fail to join the large dynamic regional blocs currently evolving in the world economy.[16] At stake here is a momentous strategic option. Morocco made its choice in 1984 by officially applying for membership in the European Union on the basis of economic and geopolitical reasons.[17] The same interests have permeated the proposed establishment of a permanent link with Europe through the Strait of Gibraltar (probably a tunnel), and the construction currently underway of the Maghreb-Europe gas pipeline.

### *The Stakes for the European Union*

The stakes for the European Union are mostly geopolitical, since Morocco is only a small trading partner of the EU (indeed, the three main countries of the Maghreb – Morocco, Algeria and Tunisia – together account for less than one percent of the EU's total foreign trade). To be sure, some of Morocco's exports to the EU – most notably agricultural and fishing products – are far from negligible, but all of them could easily be replaced with imports from other countries without any significant impact on prices.

There are many other elements that shape EU's interests in Morocco. These relate to such issues as demography, culture, religion, strategic position, as well as the fact that Morocco belongs at once to the Maghreb, to the Mediterranean Basin, to Africa, and to the Arab and Muslim worlds. However, in addition to the geopolitical elements, Morocco and other Mediterranean countries have also increased the economic stakes for the EU.

In the wake of the first "oil shock," the Euro-Arab dialogue was marked by the economic concerns of the European Economic Community. No comprehensive Mediterranean policy framework was elaborated. Indeed, during the decades of the 1960s and 1970s, the dialogue was limited to similar Association Agreements, followed by Cooperation Agreements signed with certain Mediterranean countries. It was not until the 1990s that, in view of dramatic changes in the international context, the European Commission saw fit to design a "new Mediterranean policy," whereby it:

> ... reiterates its conviction that the geographical proximity and the intensity of myriad links have turned the stability and prosperity of DMCs (Developing Mediterranean Countries) into essential elements for the Community itself. The widening of social and economic gaps between the Community and the DMCs.would hardly be tolerable. Broadly speaking, the security of the Community is at stake.[18]

Likewise, the European Council of Heads of States and Governments convening in Essen in December 1994 stated that "the Mediterranean represents an area of strategic importance for the European Union."[19]

At the economic level, the goal is to "establish a vast economic space encompassing geographic Europe and the Mediterranean"[20] by means of a network of agreements between the European Union and over 30 countries in its immediate neighborhood. The objective is to promote the integration of these countries in the European economy to varying degrees. In descending order of integration, one should note the "European Association Agreements" with ten countries in Central Europe, the "Customs Union Agreement" signed with Turkey, the "Euro-Mediterranean Association Agreements" with eight Mediterranean countries, and the "Partnership and Cooperation Agreements" with 12 countries of the Commonwealth of Independent States. The economic space envisioned through such Agreements will be shaped notably as a Euro-Mediterranean Free-Trade Area.[21] In a similar vein, a free-trade agreement is currently being negotiated between the EU and the countries of the Gulf Cooperation Council (GCC). Prospects for peace in the Middle East have opened up vast horizons for Europe's strategy, which is now faced only with the US strategy, since Middle Eastern countries lack their own strategy. Was it just a coincidence that the Euro-Mediterranean Conference held in Barcelona and the Second Middle East and North Africa Economic Summit held in Amman took place at roughly the same time, that is, in the Fall of 1995?[22]

## The Framework

Negotiations have been difficult, perhaps even harder than those that led to the signing of the Agreements of 1969 and 1976. Exploratory meetings were launched in 1992, followed by actual negotiations in early 1994. Morocco was the first country with which negotiations were started with a view to establishing the new "Euro-Mediterranean Association Agreements." Subsequently, similar negotiations were conducted with three other countries – Israel, Tunisia and Egypt, successively. Negotiations with Morocco were expected to be finalized by the end of 1995 in order to constitute the first series of such "Euro-Mediterranean Association Agreements".[23] A second series of Agreements will embrace four other countries (namely, Jordan, Algeria, Lebanon and Syria), but meetings remain at the exploratory stages.[24] This section will attempt to present the major features of the new Agreement.

### *A New Type of Agreement*

The first thing one notices is the change in the title of the new generation of agreements. Indeed, the phrase "Association Agreements" dates back to the 1969 Agreement. Apart from reciprocal advantages, however, these two types of Agreements have very little in common. Given the new regional and international context, the "Euro-Mediterranean Association Agreements" belong to a new generation of agreements concluded in a spirit of reciprocity but also of partnership, and not exclusively of assistance.[25] Having unlimited duration, they aim at establishing a free-trade regime, and they are not limited to the commercial domain. They go beyond economic and financial issues to encompass technical, cultural, social, political, and even ecological matters. In fact, as far back as April 1992, the EU's Council of Ministers made the decision to negotiate a new Agreement with Morocco on the basis of "four main pillars:" political dialogue; economic, technical and cultural cooperation covering all fields of common interest to both parties; the progressive establishment of a free-trade area; and financial cooperation.[26] Moreover, this agreement was meant as the "first of a series of Euro-Maghreb Association Agreements"[27] as well as an example to other Maghreb countries.[28] However, due to the difficulties encountered in the negotiations with Morocco, the first such "Euro-Mediterranean Association Agreement" was signed with Tunisia on 17 July 1995 along the same principles.

What the EU had proposed to Morocco seems to be "analogous with and as comprehensive as the European Association Agreements signed between the EU and Poland or Hungary, the only exception being the prospects for accession," which is restricted to European countries exclusively.[29]

The general aspects of the agreement are similar to those to be found in the Agreement between the EU and Tunisia.[30] The Agreement includes commitments in respect of : political discipline; free circulation of goods; rights of establishment; payments, movement of capital, competition policy and other economic measures; economic and financial cooperation; and other general measures.

### *A Free-Trade Area*

The commercial track represents the centerpiece of the Agreement, around which other aspects of economic and financial cooperation are woven. It anticipates the progressive establishment – over a 12-year period – of a free-trade area.

There are differences in the treatment accorded to industrial products (which exclude agro-industrial and fishing products) and agricultural products, as well as between the pace of liberalization of the European and Moroccan markets so as to take into account differences in the development levels between the two parties.

From the perspective of the EU, there has been confirmation of freedom of access in respect of industrial products – which already exists since the signing of the 1976 Cooperation Agreement – for Moroccan products through the exemption of customs duties and similar taxes.

As for Morocco, immediately following the implementation of the proposed Agreement, the country will no longer apply quantitative restrictions – or any other equivalent measure – to imports from the EU. There are four different lists of products, each of which will follow a specific time-frame for the elimination of the customs and taxes of equivalent effects that apply to the importation of products of EU origin. The products contained in the first list will be liberalized upon entry into force of the Agreement; those in the second list in three years (including the elimination of reference prices that are applied to certain products in this list, notably textiles and clothing products); those in the third list between three to twelve years; and at the expiration of the transition period for products that are in the fourth list.

Agricultural products and derivatives have been subjected to a lesser degree of liberalization. The label "agricultural products" encompasses agricultural goods per se, the products of agricultural industries, and fishing products. The achievement in this sector has been less ambitious than in the case of industrial products, mainly as a result of the EU's CAP. The schedule of concessions is partial and imprecise (indeed, vague), most strikingly in regard to its second phase.

During a first phase, the Agreement will uphold the advantages already extended by the EU within the framework of the previous agreements, but with some minor adjustments and improvements. It includes: limited increases in the volumes that are exempt of customs duties (three percent per year between 1997 and 2000) for certain fruits and vegetables (such as citrus fruits, tomatoes, potatoes, orange juice, flowers); the partial extension to the whole Community market – which has evolved into a single market without internal borders – of those advantages embodied in the France-Morocco Protocol (Protocol 1/7); and exemption from customs duties within the framework of quotas for certain products that would not otherwise benefit from it under the current regime (such as canned and frozen vegetables). On the eve of the second phase (that is, in the year 2000), the reciprocal liberalization of agricultural exchanges will be examined.

### *Financial, Economic and Technical Cooperation*

In the near future, the aid instruments of the new Mediterranean Policy and the current budgetary guidelines of the European Commission are to be maintained.[31] Additional resources are made available in the medium term, particularly within the framework of the MEDA program.[32] A new balance in the policies of the EU – which has tilted excessively in favor of the countries of Central and Eastern Europe – will entail an increase in aid to Mediterranean countries.[33]

Together with financial cooperation, Morocco considers economic and technical cooperation as key elements for the success of the free-trade area. Such cooperation is already quite significant. It will become even more important within the framework of the Agreement, which calls for eighteen different programs of action. They include, inter alia, support for the private sector, support for structural adjustment, and support for socio-economic programs.[34]

### *Other Tracks*

The provision of services by nationals from the countries of one party in the territory of the other is allowed in most sectors. Service providers will be allowed to open branches, subsidiaries, and so forth , as well as to benefit from "national treatment" and to employ their own citizens in the case of key personnel. However, the time frame for the implementation of these measures is not specified.[35]

The Agreement is limited mainly to the implementation of the social clauses embodied in the 1976 Cooperation Agreement, which have never been applied. Above all, they call for non-discriminatory treatment regarding work conditions, remuneration and social protection for Moroccan immigrants residing in the European Union (which hosts 80 percent of all Moroccan citizens living abroad). Further, a social and cultural dialogue – also tied to immigration issues – is expected to take place.

In addition, the Agreement includes systemic clauses which can be found in other free-trade agreements signed by the EU. These relate to norms and standards, protection of intellectual property rights, competition rules, smuggling, and narcotics. Lastly, political dialogue has been institutionalized and reinforced at the executive and legislative levels as well as in civil society.

Such is the current configuration of the future EU-Morocco Agreement. To be sure, obscure points, ambiguities and points of contention remain, but the negotiations currently underway are expected to settle them in due time.

## Potential Impact

Some effects of the Agreement will be felt directly and in the near future, while others will take more time to materialize. Still, other effects – namely the dynamic ones, which are the most interesting and most promising for Morocco's future development – will depend not only on the liberalization of commercial exchanges, but also on a host of other factors, such as foreign investment and follow-up policies.

To date, no comprehensive studies have been undertaken in order to assess the ultimate impact of the Agreement. Hence, this section will limit itself to a tentative analysis of the likely effects. The latter are comprised of general effects; those bearing on public finance; and those related to the various sectors of economic activity.

### *Macroeconomic Effects*

The establishment of a free-trade area with the EU is likely to add a great deal of dynamism to the Moroccan economy and raise its growth rate due to a combination of several factors, among which one should note:

- The creation of an atmosphere of confidence in the Moroccan economy, a sort of insurance, the consolidation of the achievements of structural adjustment and liberalization – such as accession to GATT in 1987, which led to the strengthening of the country's trade regime. In other words, it will act as a guarantee for the future of the Moroccan economy as it becomes tied to the largest market in the world.
- The growth of foreign private investment, notably from Europe, which already accounts for the bulk of investment in Morocco. The one and a half million Moroccans living in Europe would participate in this trend, and would thus be encouraged by the birth of a new economic space to help boost business links with Morocco by bringing in their savings and their expertise.
- The promotion of competition in the domestic market and, as a result, the creation of a more competitive economy for exports.

- The encouragement of technical progress, research and training, boosted by the new dynamics and by the strengthening of economic, technical and cultural cooperation within the framework of the new Association Agreement.

In conjunction with these clearly positive effects, other developments are likely to have mixed effects. First, by reducing and later eliminating tariff and non-tariff trade barriers as well as by enhancing competition, the free-trade area will exert downward pressure on domestic prices. That is only true for manufactured goods. For agricultural products, two other factors will act in an opposite direction: the high level of European prices and the reduction of subsidies, notably for exports, caused by the Uruguay Round will likely exert upward pressure on the prices of agricultural products.

The second impact will affect labor. By reinvigorating economic activity, particularly in labor-intensive sectors where Morocco has a comparative advantage, the free-trade agreement may help solve the country's unemployment problem, especially in the case of women, who constitute an economically active group with one of the highest unemployment rates in the economy.[36] By the same token, free trade may increase unemployment in other occupational categories, by creating difficulties in certain branches of economic activity or by leading to the bankruptcy of non-performing companies. The net global impact on Morocco's labor force – much like the regional impact – will depend on the respective intensity of these two opposite effects as well as on restructuring and retraining policies.

### *Impact on Public Finances*

The implementation of a free-trade area will lead to immediate and significant losses in budget revenues. Such losses will increase progressively, reaching more than six percent at the end of the first five-year phase. By the end of the 12-year transitional period, these losses will have reached over two-thirds of customs revenues – that is, more than 13 percent of all budget revenues – and will represent over three percent of Morocco's GDP.[37] Likewise, the eventual increase in the prices of imported agricultural goods may lead to increases in budget expenditures earmarked for consumption subsidies.[38]

These two negative effects could be partially offset, in the medium term, by an increase in domestic fiscal revenues through the acceleration of economic growth. Nevertheless, the net effect will certainly be overwhelmingly negative for quite a long time. Hence, compensation mechanisms must be sought, notably through the sort of financial cooperation called for in the Association Agreement, in order to avoid jeopardizing the hard-won achievements of Morocco's structural adjustment program.[39]

### *Impact on Industry*

Industry is the sector where the impact of the free-trade area will be felt from the very beginning. Also, it is the sector where the potential dynamic effects are the largest. Given the framework of Morocco's structural adjustment program, industry has undergone dramatic changes in the course of the past decade, mostly as a result of reforms in the incentive system and sharp reductions in tariff and non-tariff protection.[40] To be sure, these changes give Moroccan industry an edge in terms of its trading opportunities with Europe. Added to that is Morocco's commitment, within the framework of the Uruguay Round Agreements, to apply a tariff ceiling of 40 percent to manufactured goods.[41]

**Table 2: Industrial Sector: Some Indicators of Size and Competitiveness, 1980-91**

| | 1980 | 1991 |
|---|---|---|
| Number of Enterprises | 2,820 | 6,019 |
| Value Added (1985 prices)[1] | 9,825 | 22,702 |
| Employment (thousand) | 222 | 423 |
| Value Added per Worker[2] | 44 | 54 |
| Real Wage Level[2] | 24.7 | 20.3 |
| Export/Output | 0.13 | 0.22 |
| Output/Absorption[3] | 0.80 | 0.84 |
| Imports/Absorption | 0.30 | 0.34 |
| Exports/Imports | 0.33 | 0.55 |

[1] *Millions of 1985 Dirhams;*
[2] *Thousands of 1985 Dirhams:*
[3] *Absorption = Output + Imports - Exports*
*Source: ČERAB (1994), pp. 5-7.*

Between 1980 and 1991 the number of industrial enterprises and their value added at constant prices have more than doubled, while employment has grown at a slower pace (Table 2). Thus, the value added per worker has increased. In addition, since real wages have declined, the unit cost of labor has declined even more, but that has not improved Morocco's competitiveness relative to countries with lower wage levels and/or higher productivity.[42]

By the same token, the ratio of exports to domestic production has risen. The same has happened to both the ratio of domestic production to absorption, and the coverage ratio of industrial imports by exports. These trends combined show a more focused orientation towards exports and higher competitiveness. At the same time, however, the domestic market has become more open to foreign goods due to increases in the ratio of imports to absorption.

The impact of the free-trade area on Morocco's industrial sector may be better understood through exports and imports of manufactured products. On the export front, Morocco's industrial goods[43] already benefit from customs exemptions in the European Union, which explains their concentration in this market even before the signing of the free-trade agreement. The distribution of Morocco's exports that are destined to the EU varies from sector to sector, anywhere between 36 percent and 94 percent (Table 3). However, Morocco's industrial goods seldom account for more than one percent of the European market.

**Table 3: The Shares of Exports of Moroccan Industries to the EU Market (percentage)**

| Sector | Export/ Output (1990) | Share of to the EU (1988) | Morocco's Share of EU Market (1990) |
|---|---|---|---|
| Food Industries | 1 | 78 | 1.2 |
| Other Food Industries | 25 | 38 | 0.5 |
| Beverages & Tobacco | 72 | 0.9 | -- |
| Textiles and Clothing | 30 | 70 | 1.1 |
| Clothing and Apparel | 85 | 94 | 1.4 |
| Leather/Leather Shoes | 44 | 71 | 1.1 |
| Wood/Wood Products | 20 | 62 | 0.9 |
| Paper/Cardboard | 14 | 60 | 1.0 |
| Mineral Products | 2 | 36 | 0.6 |
| Metallic Industries | 16 | 62 | 1.0 |
| Metal Works | 2 | 46 | 0.7 |
| Equipment Material | 1 | 42 | 0.8 |
| Transport Equipment | 11 | 64 | 0.8 |
| Electrical Equipment | 16 | 78 | 1.3 |
| Office Equip/Precision Inst. | 5 | 51 | 0.8 |
| Chemical Products | 41 | 41 | 0.6 |
| Rubber/Plastic Goods | 5 | 58 | 0.9 |
| Other Industries | 9 | 73 | 1.1 |

*Source: Ministry of Industry and Trade and World Bank. Cited in Jaidi (1995), p.151.*

Does that mean that the prospects for Moroccan exports will be enhanced by the free-trade agreement? The actual situation is quite the opposite, mostly because of the Uruguay Round Agreements and the ensuing erosion of trade preferences previously enjoyed by Moroccan products. Textiles, which represent 40 percent of Morocco's industrial exports[44] and have a good sales performance in the European market, risk being adversely affected by the dismantling – over a period of ten years – of the Multi-Fiber Agreement and the gradual reduction of European tariff protection. That is what led analysts to estimate that GATT 1994 will spell losses for Morocco, in the order of one percent of its GDP.[45]

Hope is now centered around the export potential that could be mobilized due to increased competition and the actions undertaken by the Euro-Morocco partnership. Because of its potential for trade creation, the latter could compensate for the trade diversionary effects of the Uruguay Round.

As for imports, the freedom of access that European manufactured goods will enjoy in the Moroccan market as a result of the free-trade agreement, albeit gradual, will pose a formidable challenge to Morocco's industry. But the situation varies from sector to sector, as indicated by differences in tariff protection rates and import penetration ratios (Table 4).

The tariff protection rates vary from 24 percent for chemical and parachemical products to 57.5 percent for apparel, rubber and plastic goods. Added to that is the rate of quantitative protection. The fraction of production subject to quantitative restrictions shows a great deal of variance: 5 percent for non-electrical machinery; 12 percent for rubber products; 20 percent for transport materials; 46-47 percent for textiles and clothing; and 84 percent for shoes.[46]

The import penetration ratio also shows variation: 3 percent for clothing; 21 percent for leather and leather shoes; 38 percent for textiles and clothing products; 52 percent for transport materials; 66 percent for equipment material; and 87 percent for other manufacturing industries (Table 4).

The Ministry of Industry and Trade has divided Moroccan industrial sectors into four groups on the basis of their degree of protection and their competitiveness.[47] One could classify them in ascending order of responsiveness to free trade as such:

- Competitive industries enjoying little protection, such as the fertilizer industry and certain agro-industrial products (for instance, wine and canned citrus fruits). Free trade would not pose any problem for these products.
- Competitive industries enjoying a high degree of protection, such as yarns, shoes (both leather and plastic), electrical material, metal works, basic metallurgy, and beverages. In these cases, protection could be reduced with little damage.

- Non-competitive industries enjoying little protection, mostly those sectors that manufacture intermediate goods, such as iron, glass products, textiles for clothing products and fine wheat flour. The effects of free trade would be noticeable yet far from excessive.
- Non-competitive industries enjoying a high degree of protection, such as cheeses, paper and cardboard paper, skins, vehicle frames and assembly, and bolts and screws. Here, protection can hardly be justified. These industries would be the most adversely affected in the event of the creation of a free-trade area.

It is estimated in official circles that roughly 40 percent of Morocco's industries are competitive and export-oriented; about 20 percent have the potential to become competitive and need specific assistance in this regard; and the remaining 40 percent amount to non-competitive industries turned to the domestic market and highly protected. [48]

## Table 4: Protection Rates and Import Penetration Ratios of Moroccan Industrial Sectors (percentage)

| Sector | Tariff Rate | Penetration Ratio[1] |
|---|---|---|
| Food Industries | 40.7 | 4 |
| Other Food Industries | 50.6 | 12 |
| Beverages and Tobacco | 49.5 | 8 |
| Textiles and Clothing | 50.0 | 38 |
| Clothing and Apparel | 57.5 | 3 |
| Leather/Leather Shoes | 46.5 | 21 |
| Wood/Wood Products | na | 42 |
| Paper/Cardboard | 50.5 | 17 |
| Mineral Products | 25.5 | 9 |
| Metallic Industries | 44.6 | 53 |
| Metal Works | 45.9 | 18 |
| Equipment Material | 44.4 | 66 |
| Transport Equipment | 49.2 | 52 |
| Electrical Equipment | 44.4 | 43 |
| Office Equip./Precision Inst. | na | 84 |
| Chemical Products | 24.0 | 30 |
| Rubber/Plastic Goods | 57.5 | 22 |
| Other Industries | na | 87 |

*[1] Imports/Absorption*
*n.a: not available*
*Source: Ministry of Industry and Trade. Cited in Jaidi (1995), p. 156.*

### *Impact on Agriculture*

Agriculture is a much more vulnerable sector than industry. Progress towards free trade in agricultural goods has been very limited so far. Regarding imports, the impact of the free-trade area on agriculture is now only hypothetical. It is on the export front where problems arise.

Indeed, as regards exports, 28 percent of trade revenues are at stake (Table 1). In Morocco, agricultural activities directed towards the export market employ 500,000 people and provide for the livelihood of three million people concentrated in specific regions. The horticultural sector for export – which is under particular threat because of the EU proposal to GATT – employs over 25 percent of agricultural manpower and accounts – fresh and industrialized goods alike – for 80 percent of Morocco's agricultural exports, of which the main market is the EU (78 percent).[49]

On the import front, no significant liberalization is being expected during the first phase of the transitional period. Even though there has been a certain degree of rationalization of agricultural policies throughout the decade of structural adjustment, agriculture was less affected by liberalization than industry in Morocco. Indeed, the liberalization of imports and of prices of basic agricultural goods and their derivatives (such as sugar, cereals, oil seeds and oils) has been called off for the third time in 18 months. It was finally agreed in May 1996.[50] Negotiations on agricultural issues were more difficult owing to the complexity of the sector as well as important ramifications at the economic and social levels. Moreover, the consolidation of Morocco's tariff ceilings for agricultural products within the framework of the Uruguay Round took place at a very high level (289 percent), whereas the maximum tariff was much lower beforehand (45 percent).[51]

Future negotiations with the EU regarding free trade should take into account the degree of sensitivity of agricultural products. The latter could be subdivided into three categories. The first one – agricultural inputs – could be liberalized quite soon. The second category – products other than basic goods – could be the subject of a gradual liberalization of imports, after an initial transition phase. Lastly, the third category and the most vulnerable one – basic foodstuff – could conceivably be liberalized at the last stage, and after a transitional period.

### *Impact on Services*

The establishment of a free-trade area between Morocco and the EU would also have a considerable impact on the development of services in Morocco, particularly tourism, international transport, financial services (banks, insurance companies, stock markets), and so forth. In this regard, it is important to note that Morocco has already proceeded, within its commitments in the Uruguay Round, to liberalize exchanges in a number of services, such as telecommunications, construction and engineering, environmental services, business, banking, insurance companies, tourism, as well as air and sea transport.[52]

## Conclusions

Privileged relations between Morocco and the European Union date back to the latter's creation, in its original form, with the signing of the Treaty of Rome. Such relations have evolved and gone through various phases: "association," "cooperation," and in the present a new mode of association whose principal element is the establishment of a free-trade area. Negotiations have always been long and difficult, but they have also invariably been successfully concluded. This is explained by the stakes involved and the expected benefits. Apart from these, the last phases of negotiations are particularly important because of their strategic implications for the EU, for Morocco, and for the region as a whole.

In as far as the EU is concerned, the Agreement with Morocco falls within a strategic framework whose goal is to create a "vast economic space" covering Europe and the Mediterranean through a network of agreements that has the EU as its fulcrum. The Euro-Mediterranean free-trade area is expected to be established by the year 2010. In addition to its agreements with each individual country, the EU has encouraged Mediterranean countries to establish agreements with each other as well.[53]

For Morocco, the free-trade area with the EU is the capstone of a strategic choice – that of consolidating the country's ties with Europe.[54] In this regard, it is worth mentioning that the project revolving around a "medium-term strategic program" stipulated the application of the Agreement with the EU starting in 1996.[55]

For the region as a whole, the proliferation of Euro-Mediterranean association agreements – eight already signed, with four Agreements that were scheduled to be signed in 1995 and four others at a later stage, in addition to the Customs Union Agreement signed with Turkey – heralds the triumph of Europe's strategic vision. Even though the EU has encouraged horizontal cooperation, as exemplified by the South Mediterranean free-trade Agreements, future exchanges are likely to be dominated by vertical integration in view of two factors: the gaps in levels of development and the absence of a regional strategic vision on the part of Middle East and North African (MENA) countries. Indeed, the only limit to Europe's strategic vision would be the existence of another "vision" for the MENA region, one which has begun to surface at the MENA Economic Summits.

## Notes

1 Cited in Mellah 1974, pp. 64-65.
2 The only products excluded, with some exceptions, were finished goods. See Hamdouch 1983, p. 198.
3 Cited in Mellah 1974, p. 61.
4 See Oualalou 1980, p. 60, and Mellah 1974, p. 164.
5 All other fruits and vegetables are thus excluded.
6 With the exception of tuna, which is subjected to quota restrictions in France.
7 The Algeciras Act of 1906 instituted the "open door" regime in Morocco. Above all, it stipulated equal treatment for imports coming from the major industrial powers Hamdouch 1983, p. 24.
8 Between the signing of the Association Agreement and that of the Cooperation Agreement, the European Community grew from six to nine members with the accession of Great Britain, Ireland and Denmark in 1973.
9 Greece in 1981, Spain and Portugal in 1986. This is refered to as the "second enlargement."
10 After the accession of Sweden, Finland and Austria in early 1995.
11 Office des Changes 1993, and the Moroccan Bank of Foreign Trade 1995.
12 For the first eleven months in 1994, see European Union 1995b. Total foreign private investments amounted to US$ 590 million in 1993. See Office des Changes 1993.
13 Sasson 1994, p. 55.
14 The situation was resolved by the adoption of a quota of 130,000 tons which was nonetheless clearly insufficient. See European Union 1995a, p. 4.
15 Because of the cancelling of negotiations towards the renewal of the Fishing Agreement between Morocco and the European Union. See *La Vie Economique*, 21 July 1995.
16 Hamdouch 1995.
17 The request was reiterated during the visit of the new French President to Morocco in July 1995.
18 *Le Monde Dossiers et Documents* 1995, p. 2.
19 European Union 1995a, p. 1.
20 European Union 1995b, p. 1 and supplement.
21 Ibid.
22 The Amman Summit in October 1995 and the Barcelona Conference in November 1995.
23 Negotiations were started with Morocco on 14 February 1994, with Israel on 21 February 1994, and with Tunisia on 23 January 1995. See European Union 1995b, supplement, and European Union 1995c,p.3.
24 Ibid.
25 The expression used in 1992 was "Partnership Agreement," but the European Union later changed it. See Alaoui 1994, pp. 79-83.
26 *Le Matin du Sahara*, 17 March 1994, pp. 1-3.
27 Project of negotiation guidelines adopted by the European Commission in December 1992. See Alaoui 1994, p. 83.
28 Ibid.
29 European Union 1995c, p. 1.
30 See *L'Economiste Maghrebin* 1995, No. 132, and Realites 1995, No. 498.
31 Memorandum presented by Morocco to the EU on 14 February 1994. In *Le Matin du Sahara*, 17 March 1994, p. 3.

32 European Union 1992.
33 *L'Economiste Maghrebin* 1995, No. 132, p. 18, and European Union 1995a, supplement 1996 and 1997: almost 5 billion ECUs (1 ECU = US$ 1.2) for the period 1995-1999 which are earmarked to 12 Mediterranean countries (of which 450 million ECUs for Morocco for the period 1996-1998) against 7 billion ECUs that have budgeted for East European countries.
34 European Union 1995d, 1996 and 1997.
35 With the exception of the transport sector. The right of establishment of natural persons and liberal professions was excluded.
36 The rate of female unemployment in Morocco's urban centers is 25 percent, compared to an overall rate of 16 percent for the total urban labor force. See *Direction de la Statistique* 1992.
37 Customs revenues represent nearly 20 percent of budget revenues, of which two-thirds (that is, roughly US$800 million, or 3.3 percent of Morocco's GDP) are accounted for by European product. Over 80 percent of these products are manufactured goods, of which 40 percent will be exempted from customs duties at the start of the first phase of the Agreement. See *Le Matin du Sahara*, 17 March 1994, BMCE 1995, No. 218, and *Direction de la Statistique* 1994.
38 Subsidies for consumption goods have declined considerably in the course of the structural adjustment program. They have gone from 3.2 percent of Morocco's GDP in 1982 to less than 0.7 percent in 1992. However, they have recently increased again, reaching 1.1 percent of GDP in 1994. See Bank Al-Maghrib 1993, 1994.
39 Hamdouch 1990, 1995.
40 Hamdouch 1990. Maximum import duties have decreased from 400 percent to 35 percent, and quantitative restrictions are now only applied to less than ten percent of Morocco's industrial production.
41 Zarrouk 1995, p. 32.
42 In 1991, Indonesia, China and Malaysia had lower salaries and, above all, much higher value added per worker in the sectors of textiles, clothing and shoes. Even countries with higher salaries, such as Tunisia and Turkey, have lower unit labor costs due to a greater differential in productivity. See Diwan 1995, Table 13.
43 With the exception of agro-industrial products, which are treated in conjunction with agricultural goods.
44 Ministry of Industry and Commerce 1994.
45 Fontagne and Peridy 1995, p. 711.
46 *World Bank Report on Industrial Development* 1992, cited in Jaidi 1995, p. 155.
47 Ministry of Industry and Commerce 1993.
48 Jaidi 1995, p. 157 and Ministry of Industry and Trade 1996, p. 33.
49 *Le Matin du Sahara*, 17 March 1994, p. 3. The agricultural sector is very important in Morocco, employing 40 percent of the economically active population and accounting for nearly 20 percent of the country's GDP.
50 *L'Economiste* 1995, No. 187; and 1996, No. 232, and *La Vie Economique* 1995, No. 3824; 1996, No. 3866; and 1996 No. 3898.
51 Zarrouk 1995, p. 32.
52 Ibid., p. 33.
53 European Union 1995a, 1995b, 1995c.
54 Hamdouch 1995.
55 *L'Economiste* 1995, No. 193, 17 August.

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