

Original Paper

Attractiveness of Foreign Direct Investment and Export Performance in Morocco: The Case of the Automotive Industry

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Abstract

Thanks to its geopolitical position and its know-how, Morocco has established itself as a leader in the automotive sector on the continent. The Moroccan automotive industry has experienced remarkable growth in recent years. A dazzling progression that is not about to stop. Thus, Morocco has become the 28th largest car exporter in the world, first in North Africa and second on the African continent.

Its performance is particularly remarkable in terms of exports and job creation, for which the sector is growing at a double-digit rate with more than 80.000 people in 2016 compared to 39.131 in 2008. Cabling is the leading employer segment with nearly 69.5% in 2016, followed by seats and seat covers (9%) and automotive manufacturing (8.3%).

And with MAD58.8 billion in export sales in 2017, compared with MAD12.7 billion in 2007, the automotive sector is the leading export sector. This performance contributed to the overall evolution of Moroccan exports by nearly 36.7%. In 2017, the automotive sector became the country's leading export sector for the fourth consecutive year. Its share rose to 23.6% in 2017 (5.5% of GDP) from 10.1% in 2007 (2.1% of GDP).

An analysis of Moroccan export markets by destination shows that France and Spain are Morocco's main customers. Thus, cabling remains the main export segment to Spain. On the other hand, for France, Germany, Italy, Turkey and the United Kingdom, automotive manufacturing is the predominant branch in exports. Outside European countries, exports of vehicles produced in Morocco doubled to Algeria between 2016 and 2017, and have increased in recent years to Asian countries, mainly China.

Foreign direct investment income from the automotive industry rose sharply to MAD3.3 billion in 2017, up from MAD0.7 billion in 2010. France remains the leading direct investor in the automotive sector (82% in 2017), followed by the USA (8%) and the United Arab Emirates (UAE). Production and exports should continue to rise thanks to a MAD6 billion investment by PSA Peugeot Citroën, which

will set up a plant in Morocco in the municipality of Ameer Seflia, in the Gharb Chrarda-Beni Hssen region, on the edge of the Atlantic Free Zone integrated industrial platform.

Keywords

Automotive industry, Morocco, Exports, Foreign direct investment, Subcontracting, Attractiveness

1. Introduction

The trade opening and financial liberalization adopted in recent years by many countries has enabled some emerging economies, thanks in particular to the availability of important production factors, to develop new sectors of activity by redeploying efforts to establish highly competitive automotive, electronics and aeronautics industries, thus enabling these countries to find their place in the new world industrial order.

Morocco is also part of this strategy of trade liberalization and investment research in new global business lines that could, among other things, reduce the trade deficit that has been growing steadily over the past ten years. The main initiative taken in this context is the Emergence plan, which is based on two complementary dimensions: management of the existing fabric and proactive targeting on growth drivers in the automotive, electronics, aeronautics and offshoring sectors, as well as the so-called traditional sectors, textiles and leather and agri-food.

The Moroccan automotive industry has risen to sustained levels of growth over the past ten years. Its performance is particularly remarkable in terms of exports and job creation, indicators for which the sector has achieved double-digit annual growth.

On an international scale, this sector is evolving in a context of increased competition between the main world poles. In addition, the effects of the economic crisis on the automotive industry (decline in sales in Europe and the United States) have contributed to the shift of part of European production to emerging countries and to focus on low-cost brands, thus adapting to the new situation on the world market, which is leading major manufacturers to seek new production areas with more competitive advantages.

The study of the Moroccan automotive industry will be presented in two parts. The first will focus on the evolution of the global automotive market. The second part will focus on the study of the automotive industry in Morocco in terms of attractiveness for foreign investment and export performance as well as the country's positioning on the world map of the automotive industry compared to other competing countries.

2. Evolution of the Global Automotive Market

The global automotive sector has been marked over the past fifteen years by a change in global demand for carmakers and by the amplification of the subcontracting phenomenon, which has enabled many emerging countries to develop an automotive industry, thus helping to generate very significant additional export flows.

World automotive production has increased remarkably, with production rising to 97 million vehicles in 2017 from 56 million in 2001. This increase is largely explained by the rise in Chinese car manufacturing and the fact that European production has held up well despite the global economic crisis.

The European Union was the world's leading automotive production hub before giving way to China in 2010, which has recorded record volumes of automotive production in recent years. In 2017, the United States is in second place in terms of automotive production with a share of 11.5%. The main producing countries in the European Union are Germany (the world's largest exporter of vehicles), Spain and France.

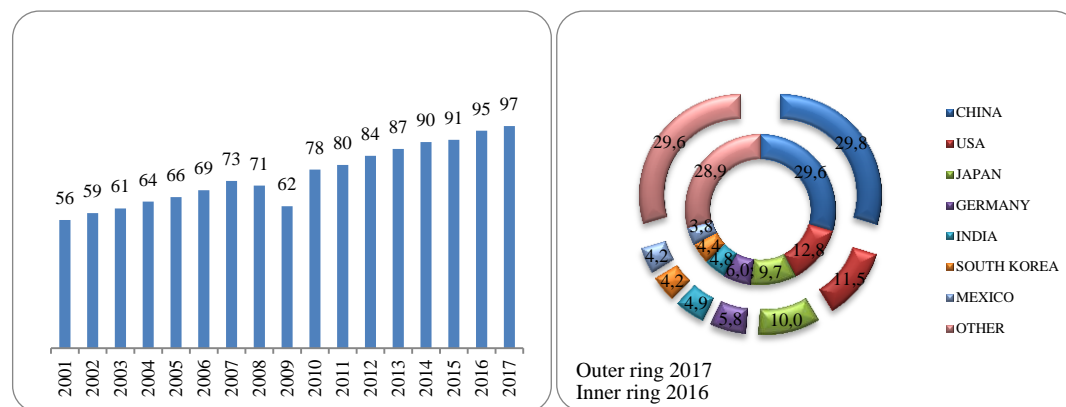


Figure 1. World Automotive Production 2001-2017 (in Percent) **Figure 2. Main Producers in 2016 and 2017**

Source: Data from the International Organization of Motor Vehicle Manufacturers (OICA).

In 2017, world trade in automotive products represents 8.1% of world trade in goods, a figure that reflects the importance of this industry in the development of the world economy. 75.3% of sales are concentrated in 4 zones, namely China, the USA, Europe and Japan.

Exports from the European Union's automotive industry represent a significant weight in trade in goods. The majority of exported products are of German origin, it being specified that this country is classified as the world's leading exporter of automotive products.

In terms of imports from the automotive industry, the United States is the world's largest importer of vehicles.

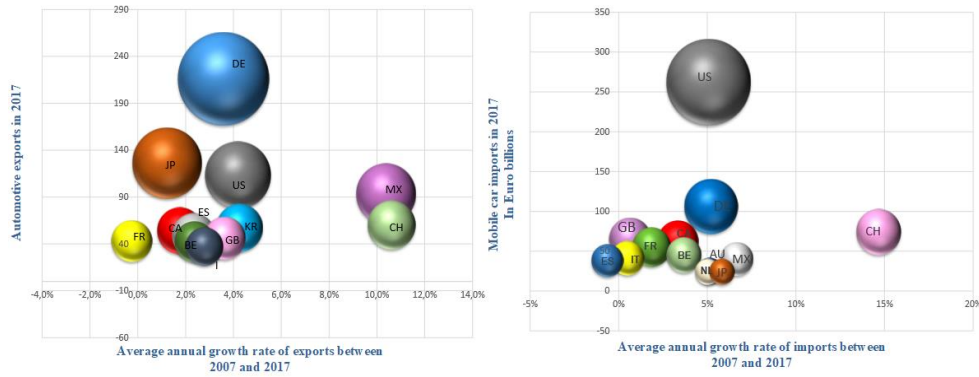


Figure 3. Main Vehicle Importing and Exporting Countries

Source: TradeMap.

The analysis by manufacturer shows that demand is oriented towards five main manufacturers, with a market share of nearly 45% compared to global automotive demand. These are General Motor, Toyota, Volkswagen, Hyundai and Ford.

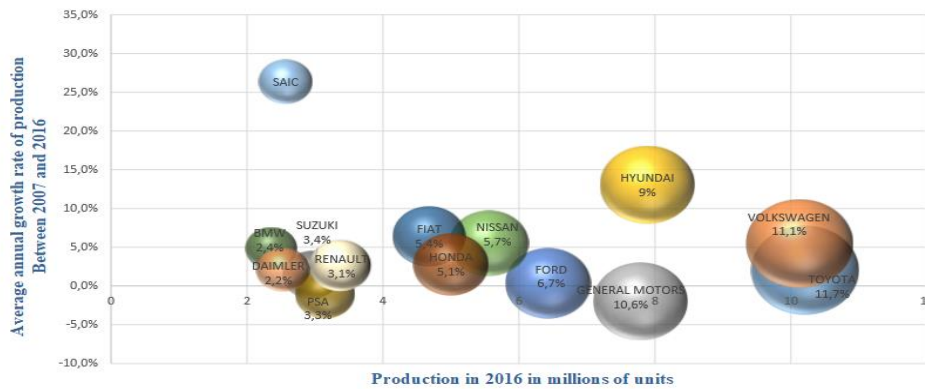


Figure 4. World Ranking of the Main Car Manufacturers, in Terms of Number of Vehicles and Market Share (in %) in 2016

Source: OICA.

2. Literature Review

Because it has strongly structured our societies and economies, the automotive industry is often considered emblematic of the 20th century and our current way of life. Since the introduction of the Ford T in 1908 and the birth of Fordism, the automotive industry has symbolized the entry into mass production and consumption as well as the emergence of new modes of industrial production (Chanaron, Lung, 1995; Boyer, Freyssenet, 2000; Bardou et al., 1977).

By permanently modifying social relations, consumption patterns, the organization of spaces, the relationship to time and distance and the hierarchy between individuals, the automotive is often considered a “revolutionary” object that characterizes a large part of the evolution of Western

civilization (Bardou et al., 1977; Boy, 1998). As a laboratory for productive organization and industrial design, the automotive industry is of interest to researchers in all disciplines. The specificities of the automotive product and the great diversity of the actors involved in the production processes make the car a real “system product” (Chanaron, Lung, 1995), with multiple ramifications and affecting a large part of the world economy.

Since its inception, the automotive industry has constantly adapted and innovated to remain profitable and keep pace with major changes in its history (Bardou et al., 1977; Pardi, 2011). Traditionally, historians have divided these developments into three main periods characterized by the succession of three distinct “industrial models”: the craftsmanship of the early years (1890-1900) centred on the production of a luxury product and based on a very small number of firms, Fordism and its Slovenian variant between 1910 and 1960, which allowed both the massive and worldwide development of the automotive and the concentration of the industry around a few large automotive firms, and finally, the triumph of toyotism in the early 1970s, which generated real price competition and which continues to be the dominant paradigm in the automotive industry (Pardi, 2011).

Over the past ten years, several academic studies conducted within the international research network GERPISA (Groupe d’Études et de Recherches Permanent sur l’Industrie et les Salariés de l’Automotive) have suggested that the historical stability of the automotive’s production organization is being called into question (work summarized in Freyssenet, 2009a). This hypothesis would be corroborated by the increasingly rapid growth of new automotive engines powered by alternative energy sources (biofuel, natural gas, electricity) in the automotive market, particularly in emerging markets where these technologies are experiencing considerable growth (Calabrese, 2012).

The emergence of these technologies and their massification in the world’s major growth markets would contribute to changing the competitive environment for automotive firms and encourage the emergence of new automotive “heavyweights” from China, India and Korea (Freyssenet, 2009a; Jullien Lung, 2011; Wang, 2009). The situation described by GERPISA would be similar to what researchers call a “Second Motor Revolution”, i. e., a profound redefinition of the contours of the automotive industry, its identity, its hierarchical composition and the individual’s relationship to mobility and space that would be at least as important as the “First Motor Revolution” which was marked by the transition from horsepower to automotives at the beginning of the 20th century (Freyssenet, 2009a; Jullien, 2010).

This transformation of the manufacturers’ competitive universe, combined with the increasing involvement of States in guiding manufacturers’ strategies, had raised the idea that the “industrial situation” was “changing”, with some of GERPISA’s work even referring to the “new automotive deal” (Jullien, Lung, 2011; Jullien, 2010). This “new deal” would manifest itself in a gradual weakening of the historical monopoly of Western and Japanese manufacturers on the definition and marketing of the automotive. This would allow new players from other industries to position themselves in the market and integrate new ways of designing and producing the automotive into the industry. The electric car

would be a good example, as its design and production require unknown know-how, particularly in electrochemistry.

3. A Brief History of the Automotive Sector in Morocco

Following its independence, Morocco was one of the few African countries to have opted for an automotive industrial policy. With the creation of the Société Marocaine de la Construction Automobile (SOMACA) in 1959, Morocco officially launched itself into the automotive industry. The main steps of the national automotive strategy could be summarized as follows:

- 1959 : Creation of SOMACA with the Italian technical assistance of Fiat and Simca, each holding 20% of the capital, the State 38%, Renault 8% and the remaining 14% by Moroccan private investors. Located in Ain Sebaa, in the Casablanca Industrial Zone, the SOMACA site covers an area of 290,040 m² including a 90,000 m² covered factory. The maximum production capacity is 30,000 vehicles per year.
- 1966 : Signature of the assembly agreement between Renault and SOMACA. The first Renault 4 and Renault 16 leave the factory's assembly lines.
- 1970: Adoption and implementation of the law on 40% recovery to encourage the establishment of vehicle equipment industries in Morocco and production, by SOMACA, of Renault 12 lamithic.
- 1982 : Adoption of the integration/compensation law at a rate of 60% to stimulate the development of exports in the sector.
- 1995 : Total SOMACA production fell to 8,482 units. Morocco marks a break with the signing of the agreement on the economic car with the Fiat group. This concept aimed at the birth of a real national automotive sector, in particular by increasing the purchase of new cars at the expense of second-hand cars imported from Europe, and increasing the production of automotive components thanks to the increase in volume of local integration, reinforced by the establishment of new European, Japanese and American equipment manufacturers. The Fiat UNO "Made In Morocco" has come into being.
- 1996 : Signature of the VULE (Light Commercial Vehicle) agreement between Renault and Sopriam (PSA) and the Moroccan State.
- 2003 : On December 31, following the non-renewal of the agreement between Fiat and the Moroccan State, SOMACA terminated Fiat's production. As part of the second call for tenders for the privatization of SOMACA, Renault's offer for a new economic vehicle for export attracted the interest of the Moroccan government, which sold it the shares of the State (38%) for 8.7 million euros (95 million dirhams).
- 2005 : Renault acquires Fiat Auto Spa's shares in SOMACA for €4.5 million. Renault's economic car project benefits from major tax relief: a zero customs tariff on CKD collections instead of the 2.5% for the common system and an almost zero import tax levy instead of 15% and a VAT rate of 7% instead of 20%. The assembly of Dacia Logan begins in the second quarter, with the objective of producing 30,000 units per year, half of which will be exported to countries in the Euro Zone and the Middle East

initially. Logan quickly acquired the position of the best-selling car in Morocco.

- 2007 : First export of the “Logan” to France. The Moroccan Government and the Renault-Nissan group have signed an agreement to set up a vast project in Tangiers, with a budget of more than 600 million euros (6.6 billion DH), for the production of 400,000 vehicles per year for export at 90%.
- 2009 : SOMACA’s annual production capacity has increased from 45,000 to more than 90,000 vehicles. Part of the production is exported to Europe (France, Spain in particular) as well as to Egypt and Tunisia under the Agadir Free Trade Agreement.
- 2012 : The Renault Tangier plant, which has become the largest automotive industry project in the southern Mediterranean, Africa and the Arab world and a pilot site for non-polluting production, exports the first cars on its production lines to Europe.
- 2013 : Entry into service of the second phase of the Renault project, increasing its total capacity to 340,000 vehicles.
- 2014 : The Renault plant produces 175,000 vehicles, up 74% compared to 2013, bringing Morocco’s total automotive production to 227,579 vehicles (including SOMACA production).
- 2015 : On May 5, 2015, the Renault Tangiers plant celebrated the launch of its 400,000th vehicle from its production line since the launch of its activity in February 2012.

4. Industrial Subcontracting in Morocco

Morocco’s strategic development choices have put it on the path of openness and progress. This process has been intensified by the implementation of targeted sectoral strategies.

Thus oriented, the Moroccan industrial sector has embarked on a growth dynamic that has been strongly consolidated since the implementation of the Emergence Plan and the conclusion, in 2009, of the National Pact for Industrial Emergence.

The PNEI (National Pact for Industrial Emergence) aims to attract prime contractors to the industrial market and develop a dense network of subcontractors, particularly in the automotive, aeronautics and electronics sectors.

In addition, the new industrial strategy 2014-2020, also known as the industrial acceleration plan, recommends, among other things, the establishment of productive industrial ecosystems; the creation of an industrial development fund dedicated to the distribution of subsidies in exchange for a commitment to job creation or exports.

Industrial subcontracting is one of the driving forces behind Morocco’s industrial development. Today, it has acquired technologies, know-how and equipment that enable it to be competitive and attractive at the international level. Industrial subcontracting generates annual revenues of more than MAD50 billion. The sector has about 2,000 companies and employs more than 300,000 people. In addition, Morocco enjoys a capital of trust and credibility with the major international aeronautics and automotive manufacturers.

Morocco has competitive advantages that enable it to develop and be able to meet the requirements of

international clients, particularly in France (language, geographical and cultural proximity); a skilled and relatively available workforce; the constant development of freight and logistics infrastructure and the implementation of incentives to attract foreign investment (creation of free zones, reduction of corporate tax, exemption from VAT on imports and exports, financial assistance for installation and training).

The country is attracting more and more European investors thanks to the improvement of the business environment and the liberalisation of trade with the European Union. However, not all needs are covered locally.

5. Attractiveness of the Automotive Industry for Foreign Investment and Export Performance

Despite its concentration on traditional products, the analysis of the national exportable supply over the past few years reveals the emergence of certain professions that contribute significantly to the modernisation of the national industrial fabric and that have made a significant progress in terms of their contribution to the national trade balance. The emergence of these growth driver segments was reinforced by the effective operationalization of the National Pact for Industrial Emergence in February 2009, which focused mainly on the development of these global businesses in view of their global dynamics and the competitive advantages they offer.

In this respect, it should be noted that exports of Morocco's global businesses (MMM) showed a favourable trend over the period 2007-2017, rising from MAD71.3 billion in 2007 to nearly MAD148.3 billion in 2017, representing an average annual growth rate of 8.5%. This dynamisation was driven mainly by the remarkable performances of the automotive sector (+17.6% on average per year), aeronautics (+13.2%), the agri-food industry (+7.9%), and to a lesser extent electronics (+3.4%) and textiles and leather (+2.1%).

At the national level and outside the traditional sectors, the Moroccan automotive industry is considered to be the key sector of the new global businesses in terms of export performance achieved in recent years, thanks in particular to the development of the cabling business and the expansion of the automotive manufacturing segment from 2012, which begins to generate very significant export revenues and foreign direct investment in this segment.

Over a ten-year period (2007-2017), the automotive industry generated an additional 46 billion dirhams in exports (58.8 billion DH in 2017 against 12.7 billion DH in 2007). This performance contributed to the overall evolution of Moroccan exports by nearly 36.7%.

In 2017, the automotive sector became the country's leading export sector for the fourth consecutive year. Its share rose to 23.6% in 2017 (5.5% of GDP) from 10.1% in 2007 (2.1% of GDP). Morocco is the 28th largest car exporter in the world out of a total of 224 countries, first in North Africa and second on the African continent.

As such, Morocco is considered one of the main automotive manufacturers in Africa and the MENA region. In 2017, the Moroccan automotive sector recorded the highest rate of growth compared to its

main competitors. In terms of average annual growth rate of automotive exports, Morocco has the highest rate (22.2%), followed by India, Vietnam, Romania, Indonesia and South Africa.

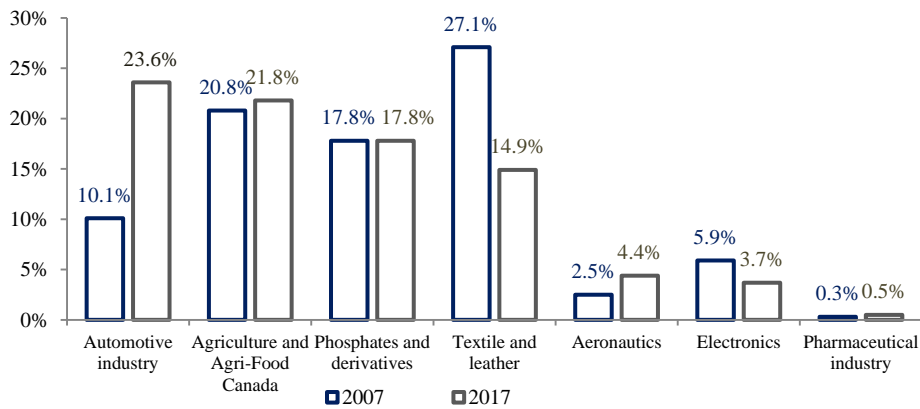


Figure 5. Structure of Exports by Main Sectors

Source: exchange office of Morocco.

The analysis of imports and exports of the automotive industry in Morocco over the period 2007-2017 shows a significant improvement in the value of exported cars compared to imported ones from 2013 onwards.

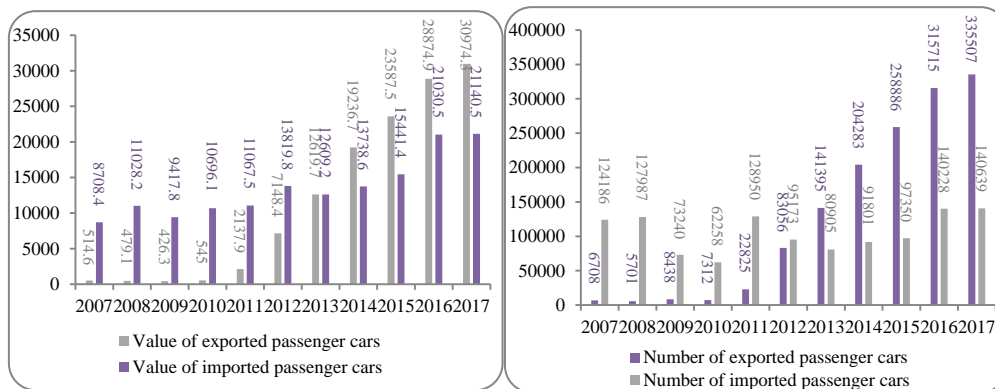


Figure 6. Evolution of Imports and Exports of Vehicles in Morocco, and the Number of Cars Imported and Exported

Source: exchange office of Morocco.

In addition, the export structure of the sector is undergoing a significant change. Indeed, the construction segment has exceeded half of exports in recent years, rising from 15.5% in 2007 to 53.7% in 2017. This result is mainly due to the installation of the Renault Tangier plant in 2012. This trend will increase after the installation of the PSA Kenitra plant in 2016.

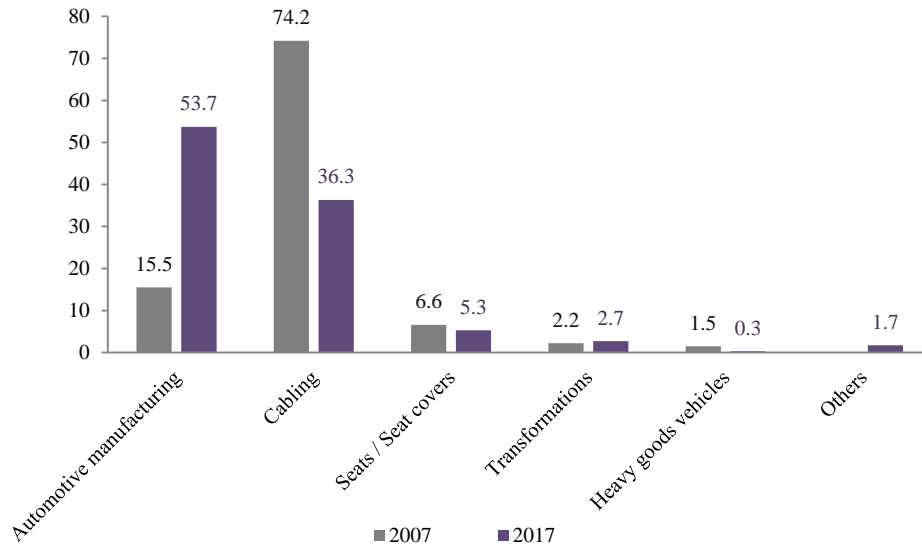


Figure 7. Evolution of the Export Structure of All Automotive Segments

Source: exchange office of Morocco.

By taking into account the jobs generated by the automotive, it constitutes an essential pillar of the national economy. Cabling is the leading employer segment with nearly 69.5% in 2015, followed by seats and seat covers (9%) and automotive manufacturing (8.3%).

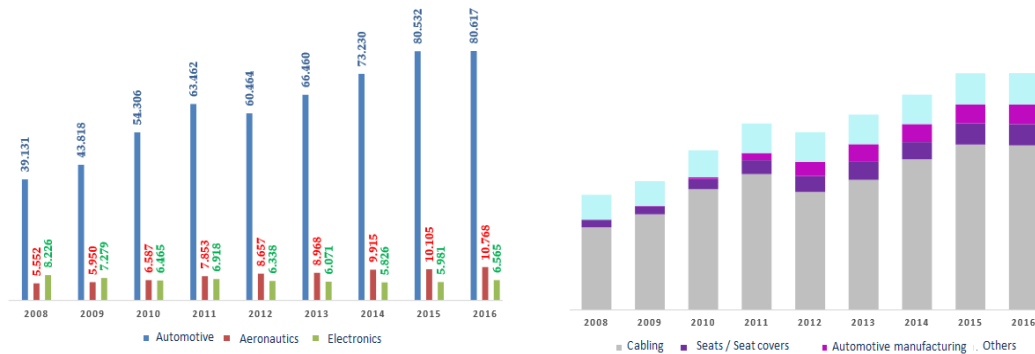


Figure 8. Employment Trends in New Export Sectors (2008-2016)

Source: exchange office of Morocco.

An analysis of the distribution of automotive exports by turnover bracket reveals a high concentration of export turnover around a limited number of companies. In 2017, 11 companies generated 48800 billion dirhams, or 83% of revenues (In 2011, only ten companies generated 17.3 billion dirhams or 77%). Almost 50% of companies in the automotive sector operate in the cabling, heavy goods vehicle and plastic transformation segments. Only 3 companies operate in the construction segment.

The evolution of Moroccan automotive manufacturing is driving the equipment manufacturers and other suppliers sector. The construction of a vehicle brings together different actors of different size,

profession and rank. The inputs of the cabling and construction segment alone represent 74% of imports in the automotive sector: 26.3% for cabling (MAD12.7 billion) and 47.7% for construction (MAD23.1 billion).

The main imported products are: wires, cables and other insulated conductors for electricity; parts and accessories for industrial cars, piston engines...

In 2017, 92% of automotive exports were recorded in three main regions: Tangiers (71% of automotive exports in Morocco), Casablanca (11%) and Kenitra (9%).

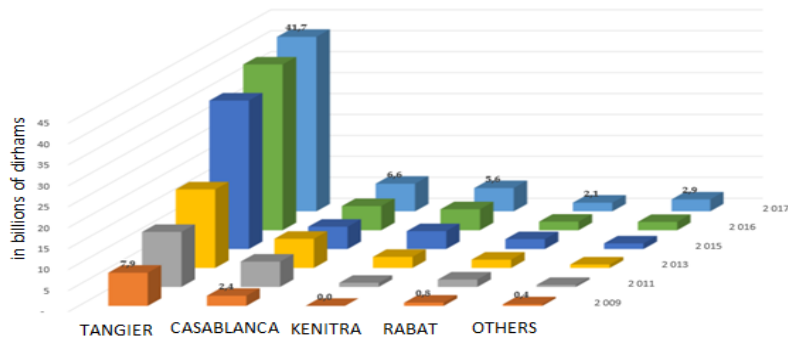


Figure 9. Structure of Exports by Region

Source: exchange office of Morocco.

An analysis of Moroccan export markets by destination shows that France and Spain are Morocco's main customers. Thus, cabling remains the main export segment to Spain. On the other hand, for France, Germany, Italy, Turkey and the United Kingdom, automotive manufacturing is the predominant branch in exports. Outside European countries, exports of vehicles produced in Morocco doubled to Algeria between 2016 and 2017, and have increased in recent years to Asian countries, mainly China.

In terms of Moroccan imports, 75% come from the following countries: Spain (32.7%), followed by France (15.9%), Germany (12.8%), Romania (8.2%) and Portugal (5.4%).

The value added by the automotive industry from re-exports following temporary admissions for inward processing (ATPA) amounted to MAD13 billion in 2014, MAD16.4 billion in 2016 and MAD17.3 billion in 2017, representing 35%, 34% and 32% respectively of the value of re-exports following ATPA. It should be noted in this respect that re-exports following ATPA represent almost all (92% in 2014, 89% in 2016 and 91% in 2017) of the automotive industry's exports.

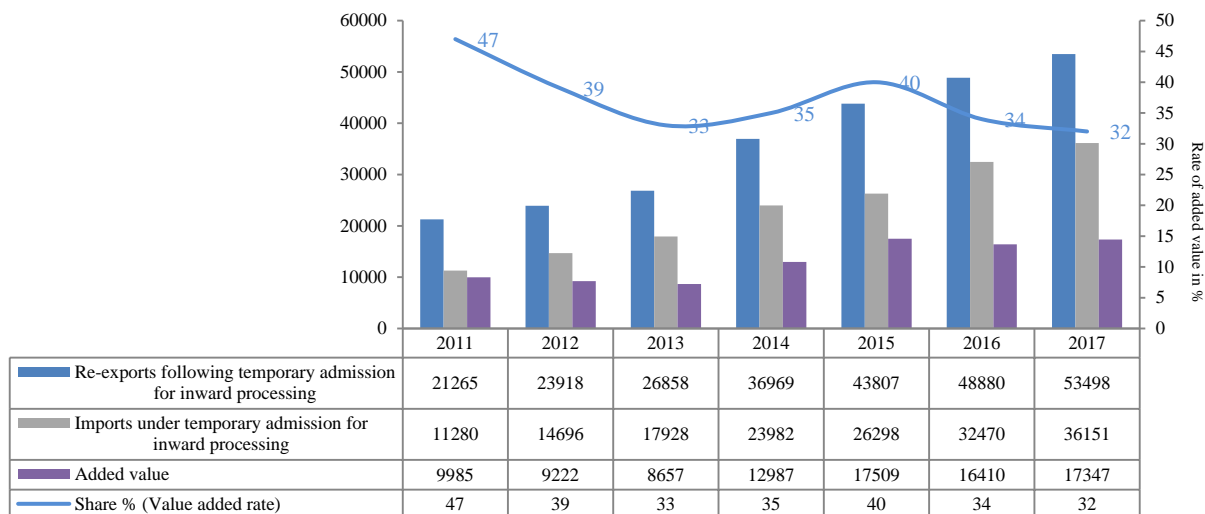


Figure 10. Value Added by the Automotive Industry from Re-exports Following Temporary Admissions for Inward Processing

Source: exchange office of Morocco.

Foreign direct investment income from the automotive industry rose sharply to MAD3.3 billion in 2017, up from MAD0.7 billion in 2010. France remains the leading direct investor in the automotive sector (82% in 2016), followed by the USA (8%) and the UAE. Production and exports are expected to continue to rise further thanks to PSA Peugeot's installation in the Atlantic Free Zone integrated industrial platform.

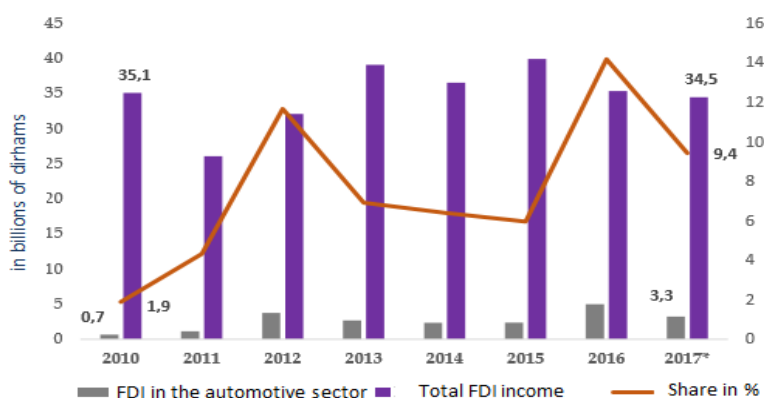


Figure 11. Evolution of the Share of Automotive Foreign Direct Investment (FDI) in Total FDI

Source: exchange office of Morocco.

6. Conclusion

The global automotive sector is undergoing a phase of redesign of its value chain with a shift in global demand and supply towards emerging countries. This new restructuring of the global value chain has led to a major redeployment of production capacities between major geographical areas.

This activity is, in fact, in the process of reforming its industrial card with a new structure of automotive supply and demand, distinguishing between four groups of countries: countries that have regained competitiveness and relaunched their automotive industry, such as the United States and the United Kingdom. Others have increased their positive momentum, such as Germany, South Korea and Japan. Large emerging countries such as China and Brazil, which have seen their automotive industries take off, but in line with strong domestic demand. And others, on the other hand, have seen their situation deteriorate, such as France and Italy.

This situation could also lead to a disruption of the global automotive value chain due to two main factors. First, there are the technological changes that are driving changes in the established order and, second, the alliance strategies between automakers, equipment manufacturers and niche players. As a result of these changes, the business model within each manufacturer's strategy must be rethought to enable it to maintain technological leadership, know-how and brand image. Their strategies should therefore be geared towards reducing costs and consequently increasing outsourcing, particularly to emerging countries.

The Moroccan automotive industry has experienced a very remarkable growth in recent years, confirmed by the increase in foreign investment flows and the performance achieved in terms of exports, particularly for cabling and construction. cabling activity remains the strong determinant of the automotive industry with a turnover representing nearly 59% of total exports in the sector.

Automotive manufacturing activity should grow in the coming years in terms of productivity, taking into account the new industrial platforms created or planned under the emerging plan to be able to attract new investment and encourage, among other things, the arrival of other manufacturers in Morocco.

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