Capitalizing on the Morocco-US Free Trade Agreement: A Road Map for Success

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When the Morocco-US Free Trade Agreement (FTA) came into force in January 2006, both countries had high expectations. After three years of implementation, however, the results are mixed. The two countries have indeed succeeded in deepening bilateral trade and investment relations. But trade and investment started from a low base and levels have not reached the magnitudes expected. In particular, Moroccan business leaders are concerned about the poor performance of Moroccan exports to the United States and the inability to attract US foreign direct investment. Among the broad reasons cited for lackluster performance are

- little Moroccan representation in the United States to promote either Moroccan exports or investment opportunities in Morocco;
- inadequate channels for Moroccan firms to gather the information they need to do business in the United States, such as sanitary and phytosanitary requirements, technical standards, and most importantly distribution networks; and
- lack of skilled English-speaking personnel in Morocco.

In this volume, experts from Morocco and the United States assess the first three years of the FTA era, identify benefits and shortcomings in its implementation, and recommend ways for Morocco to better leverage the agreement. They evaluate the FTA's performance in five key sectors—agriculture, textiles, services, aviation, and intellectual property—and draw lessons from the experience of Jordan and Chile in taking advantage of FTAs with the United States.

AGRIFOOD

US firms selling into Morocco under the FTA have benefited from large trade preferences and an efficient network of organizations to promote their exports. Moroccan firms have faced a series of obstacles in exporting to the United States: the burden of systematic scanning at the US border, high labor costs in Morocco, weak logistical systems (air and sea), tepid brand promotion, and orders sized beyond the capacity of Morocco firms.

Three major concerns should be addressed in the agrifood sector. The first is that the FTA has created strong incentives for the production of red meat and common wheat in Morocco, while liberalizing trade in animal feedstocks. Morocco should reform its policy so as to be neutral from the standpoint of production incentives between agricultural products. Moroccan leaders rejected reforms along these lines during the negotiations leading to the FTA. Now, however, these reforms are increasingly necessary. The second major concern is low foreign investment in the agrifood sector, despite opportunities created by the Moroccan government for partnership projects on state land. The third major concern, and one that could be addressed in a round of supplementary talks, is the narrow scope of Moroccan agrifood access to the US market. The United States should dramatically accelerate the liberalization of its agricultural lists, particularly in fruits and vegetables, to open new markets for Morocco.

TEXTILES AND CLOTHING

The rules of origin in the agreement are highly disadvantageous for Morocco's textile and clothing industry. The FTA follows the same rules as the North American Free Trade Agreement, which essentially requires textile firms in Mexico to use inputs from the

United States. This model is not well suited to Morocco, which is too small and too far away to create an economic "zone" for integrated textile production with US firms. Moreover, US buyers demand fast delivery of finished products, and satisfying the FTA rules of origin, which require Moroccan textile firms to use US inputs, doesn't mesh with the time and cost requirements of the market. US buyers of Moroccan clothing products are discouraged both by the tedious paperwork and by the expense of meeting complex rules of origin.

The rules of origin should be amended to mirror those of the Jordanian and Egyptian qualifying industrial zones (QIZs) or the US FTAs with Jordan and Israel. Due to the difficulty in returning to the US Congress and Moroccan Parliament to modify the text of the agreement, experts have proposed three solutions: (1) establish a list of inputs used in the textile sector that are not produced by either the United States or Morocco and exclude them from the rules of origin; (2) make use of the provisions for revising the agreement if it does not succeed in boosting trade and modify the rules of origin accordingly; and (3) create QIZs with simplified rules of origin, imposing content requirements for US products, similar to the Egyptian and Jordanian agreements.

SERVICES

The FTA underscores the essential role of services in economic expansion, and the agreement prompted Morocco to revise its laws. Even so, the FTA has provided few advantages for US firms. Two-way services trade has not expanded much. One obstacle has been the cultural divide between Morocco and the United States. Services retain a strong human dimension, and deep familiarity with the culture of another country improves communication and helps firms adapt to the market. Fostering English language training in Morocco and enabling young Moroccan professionals to take work or study tours in the United States would help promote both merchandise and services trade with the United States. Further liberalization, coupled with appropriate regulation of transportation and finance, could boost the Moroccan economy.

AVIATION

Aviation spurs innovation and growth by expanding access to markets, revolutionizing delivery systems, and facilitating cross-border supply chains. Morocco has implemented several policies to liberalize its aviation sector and engage private-sector investment in flight, support, and maintenance operations. Yet commerce between Morocco and the United States is conducted with only one direct scheduled route, and air traffic between Morocco and the United States has not increased since the Open Skies agreement, signed in 2000, or the FTA, signed in 2006 (although the global crisis is largely to blame). To develop its aviation sector, Morocco should lift the remaining obstacles on private-sector investment in the ownership and operation of aviation systems. Morocco's airport directorate should become an independent agency, and the government should proceed with its plans to privatize the Moroccan national airline, Royal Air Maroc, and end its monopoly status.

INTELLECTUAL PROPERTY

Implementation of the FTA provisions on intellectual property has not been easy for Morocco. The informal sector, including piracy and contraband, is extensive in some Moroccan regions, and the severe penalties on violations of intellectual property rights (IPR) prescribed in the FTA will restrict these activities. The government needs to develop a strategy to assist displaced Moroccans who have traditionally made a living from piracy and counterfeiting. Moreover, concerns remain about the impact of new IPR regulations on health and agriculture; the use of novel information and communication technologies could raise additional IPR issues. As Morocco seeks solutions, it should balance public access to critical knowledge against appropriate protection of IPRs. Coupled with improvements in its investment climate, Morocco should eventually see concrete benefits from its IPR commitments. As a related matter, Morocco should continue to raise the standards of its legal system, thereby answering questions about the competence and independence of the courts.