Global Value Chains Diagnostic – Case Study

Automobiles – Made in Morocco[1]

- **Morocco has integrated successfully into the global automotive value chain and has become an important exporter of automobiles in the past decade**
- **In 2018, the country was 27th in the global automotive production with 440,000 cars per year**
- **The dynamic development has been supported with proactive policies, with a particular focus on creating ecosystems with foreign multinational enterprises**
- **Deepening local integration and intensifying the level of technology are key challenges to further promote growth in the automotive industry**

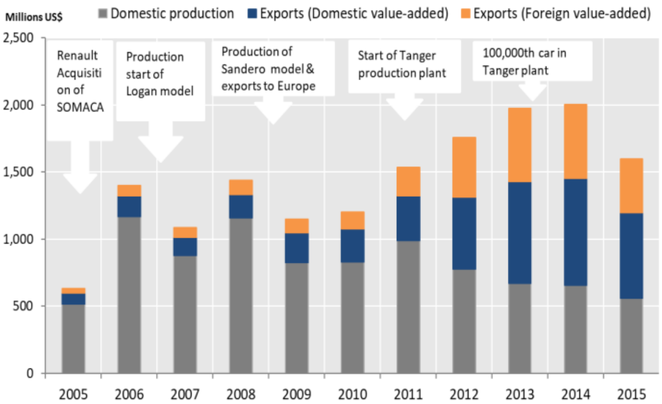
Integration into the automotive value chain

The history of the automotive industry in Morocco dates back to 1959, when SOMACA (*Société marocaine de constructions automobiles*) was founded in Casablanca to assemble vehicles for the local market, with technical assistance from Fiat and its French subsidiary Simca at that time. In 2005, the multinational automobile manufacturer Groupe Renault became majority shareholder in SOMACA when the cooperation with Fiat ended and started the production of the model Dacia Logan, explicitly producing for exportation to the EU and the Middle East and North Africa region.

Renault later expanded its presence in Morocco by producing the Sandero model in 2008/2009. In 2012, it opened the new Tanger production plant, which produced the 400,000th car in 2015. As a result of Renault's engagement, the automotive industry has grown dynamically and output has almost quadrupled between 2005 and 2014. Moreover, two thirds of the industry's output was exported in 2015, compared to solely 18 per cent in 2005 (Chart 1).

Despite the fact that foreign inputs account for a large share of the value of exports, the domestic value-added content of exports has increased as well. This highlights the complementary role between domestic and foreign value added in global value chains, where companies benefit from integrating with foreign suppliers in order to specialise in a certain production stage of the value chain. In the case of Morocco, domestic companies operate in the labour intensive assembly of final cars, but also produce intermediate products required in the production process of those cars, whereas other inputs such as engines are imported from foreign suppliers.

Chart 1: Value chain linkages of the production in the automotive industry (in million US$)



Sources: OECD (2018) and authors' calculations

[1] This note was produced by Olivia Riera from SEP/EPG and Philipp Paetzold from OCE. The analysis was supported by the *Value Chain Competitiveness Programme*, implemented by the European Bank for Reconstruction and Development and financed by the European Union. The views expressed in this note are those of the authors only and not necessarily those of the EBRD or the EU.

Development and results

Morocco entered the automotive industry value chain and started producing and exporting cars on a larger scale with the engagement of the Groupe Renault in 2005. Built on a stable political and social base, and lower costs of labour than in other car-manufacturing regions (Eastern Europe), the country has developed a vast ecosystem around the automotive industry, which not only produces cars, but also seats, articles of rubber, insulated wires and other electrical equipment that is needed for the production of automobiles.

Building on the success of the past decade, Morocco has further attracted a second foreign multinational firm, PSA Peugeot-Citroen, which opened a new production site in the Kenitra region with a production capacity of 200,000 vehicles in 2019.

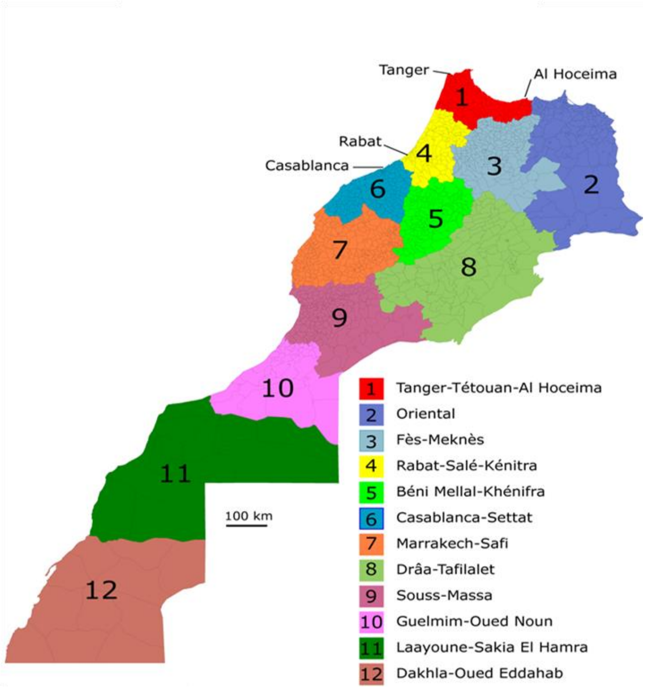
Morocco had outlined the specific development of the country's automotive industry in the industrial development strategy in 2005, the *Pacte National pour l'Emergence Industrielle (PNEI),* which was later refined and continued by the succeeding industrial policy *Plan d'Acceleration Industrielle (PAI)* in 2014.

Both plans pursued three broad objectives to develop the sector: (i) second and third-tier suppliers should gain stronger presence and expand the local value chain; (ii) development of capacities for specialised assembly to develop Morocco into a major sourcing base for Europe and (iii) attract a second large international manufacturer in addition to Renault. The industrial policies emphasised the importance of a successful coordination between different stakeholders such as the government, the private sector and investment promotion agencies.

In terms of horizontal policies, the government invested heavily in infrastructure of roads, high-speed railway and ports to improve logistics and reduce trade costs (around USD 15 billion investments between 2010 and 2015). It also supported the creation of interlinked production clusters (ecosystems) through provision of industrial parks and special economic zones with a preferential regulatory system. These industrial parks (Casablanca Industrial Zone, Tanger Med Zone and Kenitra Free Zone) are mainly located in the north-west regions of Morocco (Chart 2).

In terms of vertical policies specifically targeting the automotive industry, the government provided various types of incentives to attract foreign firms and to develop domestic production capacities. It offered reduced tax rates (corporate taxes are zero per cent for the first five years and 8.75 per cent until the 26th year, then normal charges of 17.5 per cent). Firms are exempted from export and import customs fees and VAT on imports. Moreover, the government supported capital investments and subsidised human resource development in the automotive cluster during the first three years. It also opened targeted training schools (IFMIA), which have a capacity to develop skilled technicians for the automotive industry (2000 students per year).

Chart 2: Administrative regions of Morocco



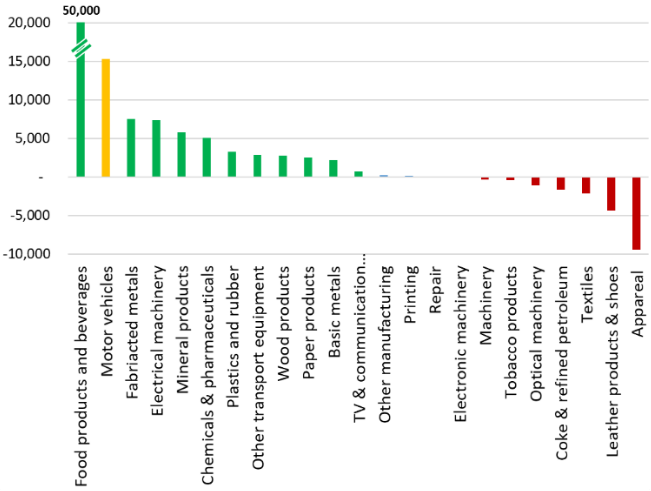
Sources: Ministere de l'industrie, du commerce, de l'investissement et de l'economie numerique du Maroc (2019)

The automotive industry became one of the key industries in Morocco in the last decade (GVC country diagnostic – Morocco). The industry has managed to attract substantial foreign investment of around USD 2.6 billion between 2013 and 2018, which is roughly a third of total FDI inflow of the entire manufacturing sector in

Morocco over the period. It also resulted in extensive growth of exports of the entire automotive industry, which amounted to almost USD 4.5 billion in 2017 (an increase by 1000 per cent since 2005 taking into account cars and other car-related intermediate products). As a consequence of this dynamic development, the country has positioned itself on the upper list of car producing economies, where it ranks 27th in the global production of vehicles with 440,000 units in 2018 (on par with Hungary and Romania).

In terms of direct employment, the integration into the automotive value chain supported the economy creating the second highest number in employment after the food industry with an increase of around 15,000 jobs only in the motor vehicles industry between 2011 and 2016. Indirectly, it has supported more job growth in supplier industries such as fabricated metals and electrical machinery (Chart 3). The majority of this employment has been established in the Tanger region with 60 per cent of the employment increase and 15 per cent in the Rabat-Kenitra region.

Chart 3: Net change in employment in manufacturing sectors between 2011 and 2016



Sources: Ministère de l'industrie, du commerce, de l'investissement et de l'économie numérique du Maroc (2019) and authors' calculations

Challenges and opportunities

Due to its strategic geographical location and various free trade agreements providing duty free access to more than one billion customers in the Europe, USA, Middle East and Africa, Morocco has positioned itself as an important regional hub exporting locally assembled vehicles. It has managed to integrate into the global value chains of the automotive industry by attracting multinational companies such as Renault and the PSA group and their international suppliers.

Due to the globally fragmented value chain in the industry and the business model of "processing for export and assembly", Morocco imports a significant share of components and assembles the final product with limited domestic value added. The local content rate remains below the long-term target of 70 per cent (around 43 per cent in 2018).

In order to increase domestic value added in the production, Moroccan firms need to have the capacity to supply the required products for the multinational firms matching the expectations on quality, quantity and price. Moroccan SMEs often lack the conformity of international quality standards, the necessary economies of scale and the technological know-how.

Building on the success of ecosystems and public-private cooperation and to address the structural weaknesses of SMEs, there is a need to further identify the bottlenecks, facilitate access to finance for capital investment in the production technology and support the adoption of international standards and quality certifications for local firms. In addition, the development of local expertise in combination with a higher provision of skilled labour force is pivotal to overcome the low-cost and medium-technology activities in form of assembling cars and to be able to capture a higher share of value added in the production. The recent announcement of the PSA group to shift the production of engines and R&D functions to Morocco offers an important opportunity for the country to move up in the global value chain of the automotive industry.

Further information is available to supplement this factsheet:

- GVC diagnostic – The Southern and Eastern Mediterranean region
- GVC country diagnostic - Egypt / Jordan / Morocco / Tunisia