

Summary: Morocco's geo-economic position is evolving in ways that will shape U.S. and international interests in the country and open new avenues for cooperation. Key drivers of change in this context include Morocco's stake in greater economic integration in the Maghreb, a growing role in Africa, new energy and infrastructure projects, and the emergence of Morocco as a hub for communications around the wider Atlantic. As Morocco's economic engagement takes on a stronger regional and global character, the U.S.-Moroccan agenda needs to evolve to reinforce opportunities for development and stability, to hedge against risks, and to get more out of existing frameworks for trade and investment.

Morocco's New Geo-Economics: Implications for U.S.-Moroccan Partnership

by Dr. Ian O. Lesser

Changing Geo-Economics

The partnership with Morocco is among the oldest of the United States' international connections. From its 18th-century origins to the present, the economic dimension has been at the forefront. It is also a "geo-economic" relationship in the sense that Morocco's strategic significance for the United States has been shaped not just by bilateral trade and investment ties — relatively modest in global terms — but by Morocco's proximity to areas of vital U.S. economic interest and its position between the Mediterranean, Africa, and the Atlantic. For decades, the *geopolitical* dimension has featured more prominently in the United States' view of Morocco, and turmoil across the Maghreb has only reinforced this reality. Yet several trends point to a rediscovery of the longstanding *geo-economic* dimension of Morocco's international posture and its importance to U.S. interests. From African development to global food security, from new transport hubs to renewable energy, the issues on Morocco's international economic agenda now go well beyond traditional questions of trade and finance with Western partners. Morocco's focus is increasingly drawn south and west, to Africa and to the wider Atlan-

tic.¹ At the same time, challenges in North Africa underscore the persistent lack of economic integration across the region, and the costs this imposes on Morocco and others. All of these factors should be reflected in future U.S. policy toward Morocco.

New Dynamics in Traditional Partnerships

Europe remains the leading economic partner for Morocco, and Morocco's access to European markets and investment will continue to be a key driver of the country's economic development for the foreseeable future. Commodities (agriculture and phosphates) are an important trade component here, alongside manufacturing (including autos and aeronautics) and, increasingly, services. In addition to the dominant position of European foreign direct investment in Morocco, a significant portion of Morocco's tourism revenue comes from European visitors. Remittances from the Moroccan diaspora, principally in Europe, still make a contribution to the Moroccan economy, although Europe's economic travails have affected Morocco on this and

1 See Ian O. Lesser, Geoffrey Kemp, Emiliano Alessandri, and S. Enders Wimbush, *Morocco's New Geopolitics: A Wider Atlantic Perspective* (Washington: The German Marshall Fund of the United States and the OCP Foundation, 2011).

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other fronts. The character and pace of economic recovery in Europe will exert a strong influence on Moroccan growth prospects over the next few years. So, too, Morocco is a stakeholder in the overall evolution of the European Union project, including the economic and political fate of southern European members. Sustained weakness in Spain and Portugal, in particular, could have a range of negative implications for Morocco-EU relations, from mobility to trade and investment.

Morocco's economic relationship with the United States holds considerable potential, but has not expanded at the rate many envisioned when the U.S.-Morocco Free Trade Agreement was concluded in 2004, and then came into effect in 2006. In 2012, the volume of Moroccan goods exported to the United States approached \$1 billion, a steady increase over previous years (U.S. exports to Morocco total almost three times this amount). In the view of many analysts, complexity hinders progress in this area, especially for small- and medium-sized manufacturers that are less well placed to navigate the agreement's provisions on rules of origin. France, Spain, Brazil, India, and others remain more important bilateral trading partners for Morocco, and Moroccan exports to the EU stood at roughly \$16 billion in 2012. Beyond the rules of origin question, there has been considerable debate over how to get more benefit out of the bilateral FTA. Overall, the U.S.-Morocco trade relationship might benefit from some visible new examples of success, at scale, and with value chains of clear benefit to Morocco's economic development. There are few such examples to compare to the success of the Renault plant in Tangier, or other projects in a Morocco-

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Europe setting. This discussion is now unfolding against the backdrop of active transatlantic trade negotiations. The outlook for these negotiations as well as the likely costs and benefits for Morocco remain unclear, but a deal on the Transatlantic Trade and Investment Partnership (TTIP) could spell changes on rules of origin and other issues of importance to Morocco's bilateral trade.

Energy is also set to become a more prominent item on the agenda. Morocco has an ambitious national program for the development of renewable energy, both solar and wind. This can contribute to Morocco's economic development, but could also become a more important element in the country's geo-economic posture. Renewable energy can be a vehicle for cooperation with neighbors in the Maghreb and Atlantic Africa, including Cape Verde, and further afield. It was proposed that electricity generated from renewable sources could eventually be exported to Europe, and various official and commercial ventures have been hotly engaged on this front, including *Desertec*. With demographic changes and demand shifts, Morocco is now looking to send a greater share of its power exports south, to energy-poor African states. The renewables sector should attract growing interest from U.S. and other investors, especially if solar and wind power can be augmented with access to natural gas at reasonable prices. Looking further ahead, Morocco may also be able to exploit potentially substantial offshore oil and gas resources. Overall, these elements can help to reduce Morocco's high national expenditure on imported energy and domestic energy subsidies.

Opportunities and Opportunity Costs in the Maghreb

Over the last two decades or more, analysts and policy-makers have pointed to the substantial costs of a "non-Maghreb."² The very small volume of intra-Maghreb trade and the closed land border between Morocco and Algeria have had measureable, negative consequences for economic growth across the region. The uprisings across the Arab world, including North Africa, underscore the urgent need for government and business leaders to focus on the core task of job creation, especially for large numbers of unemployed or underemployed youth. Morocco, Algeria, Tunisia, and Libya remain tied to a series of hub-and-spoke economic relationships with Europe. There have been some

² See Gary Clyde Hufbauer and Claire Brunel, eds., *Maghreb Regional and Global Integration: A Dream to Be Fulfilled* (Washington: Peterson Institute for International Economics, 2008).

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modest links via energy trade. Morocco has had limited access to Algerian gas from the Trans-Maghreb Pipeline. But the volumes are limited and the potential for larger scale collaboration based on the region's abundant gas and mineral resources remains unexploited.

Even as economic and social pressures grow, the revolutions in Tunisia, Libya, Egypt, and elsewhere have not done very much to encourage regional integration. If anything, regional governments are now deeply concerned about the security of their borders in light of chaotic conditions and new flows of economic migrants and refugees. Regional economic cooperation is not at the top of national agendas, despite Rabat's desire for change on this front. From the Clinton years onward, successive U.S. administrations have promoted regional economic cooperation initiatives (the "Eizenstat Initiative" of the 1990s is probably the best known). Without doubt, the evolution of the perennially troubled Moroccan-Algerian relationship will be a key determinant of what is possible in this realm. Shared economic as well as security interests can be a driver of rapprochement, and the business communities on both sides could well be a vehicle for détente and commercial cooperation. The private sector has played a role of this kind in other settings, including Greek-Turkish rapprochement from the mid-1990s onward, and efforts toward economic cooperation between India and Pakistan, despite unresolved political and security disputes. This remains a sphere with considerable potential, but renewed efforts will be needed on the part of Morocco's partners, including the United States and Europe, if headway is to be made.

Morocco Looks South

Morocco enjoys close historical ties with societies in West Africa, and as Africa begins to show real signs of sustained economic growth, the potential for a substantial Moroccan geo-economic opening to the south is real, and it is attracting new attention in the country and abroad. This phenomenon is evident from the financial sector — Moroccan banks are among the most successful in Africa — to agriculture, phosphate exports, and pharmaceutical manufacturing.³ To be sure, political and security factors are also at play in Morocco's growing African interests, especially in light of the rapidly evolving terrorism, insurgency, and trafficking scene affecting Atlantic Africa and the Sahel — the dark side of regional geo-economics. But

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Morocco's expanding economic role looking south shows every sign of becoming a structural factor in regional development and a more significant facet of U.S. interest in, and cooperation with, Morocco. On the commercial level, there is considerable potential for new U.S.-Moroccan joint ventures aimed at African markets, along the lines of the Dupont-OCP Group cooperation on industrial process development. Another good example is the Casablanca Finance City initiative, which was launched with the goal of providing a regional base for financial services throughout Central and West Africa.

Infrastructure will be an essential part of this equation. Improved communications between Africa and the Mediterranean and Atlantic economies — ports, rail, roads, pipelines, even offshore fibre optic links down the West Africa coast — will greatly benefit Morocco as it looks to expand its trade and investment engagement in Africa. The Tanger-Med port complex has emerged as a very competitive venue for container transits between Asia, the Mediterranean, and Atlantic destinations. Tanger-Med has given Morocco a more direct stake in global maritime trends, including the long-term implications of Panama Canal expansion, and even the debate over new routes across the Arctic. Air travel is already a visible and dynamic facet of Morocco's links to Africa, as Casablanca airport has become a leading hub for transits between African capitals, Europe, and America, north and south. Morocco's changing geo-economic role in Africa holds the potential to support U.S. interests in African development and

³ See Haim Malka, "Morocco's Rediscovery of Africa," *CSIS Analysis Paper* (Middle East Program), July 2013.

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security, and opens an important new avenue for bilateral and trilateral cooperation with the United States and EU partners.

Morocco in the Wider Atlantic

Morocco is clearly part of the Middle East and North Africa, as well as the Arab, Muslim, and Mediterranean worlds, and these identities are embedded in Washington's partnership with Morocco and Moroccan institutions. But Morocco is also an Atlantic country and an increasingly significant part of the Atlantic system in economic and other terms. Rabat's key international partnerships are Euro-Atlantic. The country's economic links with the southern Atlantic, and especially Brazil, are among the fastest-growing elements in the Moroccan economy. Morocco's major phosphate exports and joint ventures in the field of agro-business underscore Morocco's role as a leading actor in global food security — one important dimension of a growing focus on the country's Atlantic vocation. Indeed, this interest extends to the global south as a whole, with new Moroccan ventures in India and other emerging economies. From the perspective of Moroccan-U.S. relations, this suggests a shared and growing stake in economic development that goes well beyond the traditional bounds of bilateral cooperation. What happens in Latin America and the Caribbean, as well as Atlantic Africa — not to mention China's evolving economic role in the Atlantic space — could be a new part of the geo-economic agenda with Morocco as an emerging economy in its own right.

Some Policy Implications

These new elements on the geo-economic scene are likely to have a substantial effect on Morocco's development and international position over the next decade. They are unlikely to overturn the deep and extensive ties with Europe, or the more modest trade and investment relations with the United States. But the central message of this brief analysis is that Morocco's economic engagement is “going global,” and that this opens new, non-traditional avenues for U.S.-Morocco cooperation, as well as some useful next steps:

- Morocco's growing Atlantic engagement should be made an explicit part of the U.S.-Morocco strategic partnership agenda, especially on trade and investment;

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- In the context of political changes across North Africa, there is an opportunity for the United States to renew its commitment to greater regional economic cooperation and integration in the Maghreb, including support for a reinvigorated Arab Maghreb Union;
- In the context of transatlantic trade negotiations (TTIP), consideration should be given to implications for the U.S.-Morocco FTA and ways to streamline the current provisions on rules of origin and other constraints to extend the value of the FTA to other African states;
- The economic working group of the U.S.-Moroccan Strategic Dialogue can involve the private sector to develop concrete projects for broadening and deepening trade and investment, particularly initiatives that create sustainable and high value-added employment. There will also be opportunities to work with investors from other countries on joint projects in promising sectors;
- Infrastructure development, renewable energy projects, and other facets of the “new” Moroccan economy should be high on the bilateral agenda for economic cooperation; and
- Morocco's growing role in Africa opens new paths for U.S.-Moroccan cooperation, from commercial joint ventures to work on regional development corridors. This, too, should be part of the agenda with Washington and with European partners. One good vehicle for this could be the Obama administration's “Power Africa” program, with the possibility of linking Moroccan renewable energy to African consumers.

Finally, U.S. policy needs to take account of the reality that the United States' partners in Europe and elsewhere will inevitably play a leading role in Morocco's economic prospects. In this context, the evolution of EU strategy toward the southern Mediterranean, and the extent of European openness to Moroccan goods and labor, will be a key

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element. Trade, investment, and infrastructure decisions taken in the Gulf and West Africa will also be relevant. Building on new geo-economic factors, Washington can indeed do more to assist Morocco's economic development, but traditional bilateral cooperation is only part of the equation. Washington can also play an important indirect role with Atlantic partners, north and south, to strengthen Morocco's global economic engagement.

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