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Industrial Policy in Morocco and its Potential Contribution to a New Social Contract

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Abstract

Similar to other countries in North Africa, Morocco's economic model finds itself at a crossroads. The uprisings and subsequent revolutions in many Arab countries in the wake of the 2011 "Arab Spring" have shown that the social contract prevailing in the Middle East and North Africa (MENA) has ultimately failed. Although to varying degrees, the states of the region find themselves in need of redefining their relationships with society and developing long-term strategies to better meet the demands of their constituents. We argue that industrial policy can provide a valuable contribution to establishing a new and better social contract by addressing economic problems, such as job creation and growth, as well as by paving new ways of collaboration between government, business and non-business actors, and thus higher inclusion. This, we argue, can be achieved if key criteria related to embedded autonomy, specifically extensive cooperation across stakeholders, as well as monitoring and evaluation of outcomes are fulfilled. Our findings suggest that the policy-making process in Morocco is becoming systemic in nature, values dialogue with the private sector, and places a stronger focus on industrialisation through dynamic competitive advantage, which might set it apart from other countries in the region. However, some hurdles still need to be appropriately addressed, most particularly to satisfy the second criteria of monitoring and evaluation, which still exhibits major shortcomings, but also concerning deeper inclusion and a more systematic implementation. Yet, although challenges remain, Morocco has taken a promising direction towards addressing the weaknesses of previous policies. If the identified weaknesses are addressed, industrial policy might well prove itself as valuable contribution to a new social contract within the country.

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Abbreviations

AMDI	Agence Marocaine de Développement des Investissements/Invest in Morocco
AMDIE	Agence Marocaine de Développement des Investissements et des Exportations
AMICA	Association Marocaine pour l'Industrie et le Commerce de l'Automobile
AMISOLE	Association Marocaine des Industries Solaires et Éoliennes
AMITH	Association Marocaine des Industries du Textile et de l'Habillement
ANPME	Agence Nationale pour la Promotion des Petites et Moyennes Entreprises/ Maroc PME
ASEL	Association du Secteur de l'Electronique au Maroc
CGEM	Confédération Générale des Entreprises du Maroc
DEPF	Direction des Etudes et Prévisions Financières
EU	European Union
EUR	Euro
FENELEC	Fédération Nationale de l'Électricité, de l'Électronique et des Énergies Renouvelables
FDI	foreign direct investment
FTA	free trade agreement
GDP	gross domestic product
GVCs	global value chains
ha	hectare
HCP	Haut-Commissariat au Plan
IFMIA	Institut de Formation aux Métiers de l'Industrie Automobile
IFMEREE	Instituts de Formation aux Métiers des Énergies Renouvelables et de l'Efficacité Énergétique
IMA	Institut des Métiers de l'Aéronautique
ISI	import substitution industrialisation
ISIC	International Standard Industrial Classification
ILO	International Labour Organization
MAD	Moroccan Dirham
MENA	Middle East and North Africa
MNC	multinational company
OECD	Organisation for Economic Co-operation and Development
OFPPT	Office de la Formation Professionnelle et de la Promotion du Travail
PAI	Plan d'Accélération Industrielle
PNEI	Pacte National pour l'Émergence Industrielle

P2I	Plateformes Industrielles Intégrées
SIT	Special Import Tariff
SMEs	small and medium-sized enterprises
SNI	Société Nationale d'Investissement
SOMACA	Société Marocaine de Construction Automobile
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
USD	US dollar

1 Introduction

The upheavals that took place in 2011 and became known as the "Arab Spring" have shown that the existing social contract in the countries of the Middle East and North Africa (MENA), which was long upheld by respective political elites, has proved to be unsustainable and contested. The prevailing social contract in most MENA countries was built on the distribution of benefits (namely, public sector jobs, subsidies, transfers, free health care, and housing) by governments to citizens as compensation for lack of political participation. However, with growing populations and declining state revenues, governments were gradually less able to fulfil citizens' expectations. As citizens continued to have no real voice in politics, they were finally driven to the streets calling for: "Bread! Freedom! Social justice!"

Since then, among the countries that experienced revolutionary movements only a few (Tunisia and Morocco included) have seriously started the quest for a substantially different and more sustainable social contract. Syria, Yemen and Libya descended into atrocious civil wars – having thus no nationwide social contracts at all. The majority of MENA countries continue to be ruled by their previous authoritarian regimes, be it under a king, a state-party, or the army. One might argue that they have also established new social contracts but these are similar to the old ones. The Egyptian regime under President El-Sisi, for example, builds much less on the redistribution of rents to the population than its predecessors and much more on a narrative where the state provides security, stability and protection against terrorists – and thereby on political repression. Morocco, which escaped the turmoil of the Arab Spring, has also sought to alter the old social contract by decentralising some of state's authority (Houdret & Harnisch, 2017), seeking to gradually replace subsidies with other forms of social benefits (Vidican Auktor & Loewe, in review) and concentrating on strengthening the domestic economy to boost employment opportunities. In the short run, these new social contracts may be able to preserve stability. In the long term, however, changes in policies are necessary to set in motion the forces necessary to foster a development process that will benefit the society at large. If citizens' socio-economic conditions do not improve substantially, these social contracts are likely to disintegrate in the long run.

To stimulate economic growth and to reduce poverty, inequality and unemployment, structural economic and social reforms are needed. In the long term, it will be necessary to identify a new model of state-society relations that is more inclusive and acceptable for all relevant actors and one that can rekindle social cohesion, long-term stability and development in the region. Towards this aim, the challenge for governments in the policy-making process is to take better into consideration the problems, needs and wishes of different kinds of private enterprises as well as employees, while at the same time remaining independent of the attempt of individual entrepreneurs or lobby groups to capture government decisions. Evans (1995) has labelled this desirable compromise "embedded autonomy". Thus, increasing attention has been given more recently in the academic and policy sphere to how concerns that led to the Arab Spring uprisings could be addressed, such that social and economic opportunities become more equally distributed, national economies more globally competitive (Devarajan & Mottaghi, 2015; OECD [Organisation for Economic Co-operation and Development], 2013), and policy processes and outcomes more inclusive. Yet, research on how the competitiveness of national economies could be strengthened and thus how employment in the private sector could be

increased (especially in high value-added sectors), remains limited in the MENA region. To this end, a stronger focus is needed on improving the effectiveness of industrial policy, as a tool for driving structural economic change and increasing productivity/employment.

Similar to other countries in North Africa, Morocco's economic model finds itself at a crossroads. On the one hand, Morocco's private sector suffers from low levels of competitiveness and remains ineffective in providing enough jobs for the large number of unemployed graduates and trainees. On the other hand, signs of premature de-industrialisation (reflected in lower employment and value added) reduce the effectiveness of an industrial strategy based on manufacturing and thus constrain employment in traditional sectors (Ait Ali & Msadfa, 2016; Achy, 2013). However, a deeper exploration at sectoral level shows that, in spite of these macro-level trends, there is reason to believe that a change in the industrial development strategy has opened up ways to deliver improved outcomes in terms of competitiveness and employment. Previous research on the development of the automotive supplier industry suggests that the policy-making process in Morocco is systemic in nature; values learning, dialogue with the private sector and infrastructure development; and places a stronger focus on industrialisation through dynamic competitive advantage than in other MENA countries (Hahn & Vidican Auktor, 2017). As a possible result, Morocco recently attracted considerable foreign investment and succeeded in entering new export markets by targeting several new (for instance, aeronautics, automotive, electronics) and traditional sectors (for example, leather and textiles, and agriculture). These outcomes stand at odds with the rest of the MENA region but also with conventional wisdom regarding targeted industrial policy at sectoral and enterprise level.

To examine why this is the case, this study therefore looks in more detail at the process of industrial policy-making in Morocco over the last two decades. We explore how industrial policy is formulated and implemented, its vision and the politics surrounding it. Additionally, we analyse how the strategy evolved over time; the instruments used to implement its goals; and the mechanisms of coordination and cooperation, monitoring, evaluation and learning at sector level. We link these elements of policy-making to the outcomes in terms of employment creation and competitiveness. Ultimately, we aim to assess the degree and extent to which industrial policy-making has been changing in Morocco in response to the large social and economic challenges of the time, and in this process paving the way for a new social contract. In this regard, results from the Moroccan case can provide valuable insights and factors of influence that could be relevant for other countries in the region that have to face a similar challenge. More importantly, findings from this assessment should serve Moroccan policy-makers in their present search[1] for a new development model that can better respond to the current and future social and economic development challenges.

To better understand the challenges prevailing in MENA countries and how they can be addressed, Section 2 starts with a discussion of the social contract in the region and how industrial policy can contribute to changing state-society relations. In Section 3, we describe

1 In 2017, Morocco's king, Mohammed VI, expressed readiness to question the prevailing development model and find alternative, more effective development strategies (see http://telquel.ma/2017/10/13/mohammed-vi-remet-en-cause-modele-developpement-du-maroc_1564720).

our approach to the research and address specific issues of data collection. Section 4 then introduces the case of Morocco, starting with a short overview of its opportunities and challenges, followed by an analysis of its industrial sector and its path of development over recent years. In Section 5, we take a closer look at Morocco's industrial policy strategy with a focus on its objectives and instruments. Section 6 then examines in detail the actors and dynamics that have evolved since the introduction of a new industrial policy in 2005. Finally, Section 7 synthesises lessons learnt and derives policy recommendations for decision-makers.

2 The social contract in the MENA and the role played by industrial policy

The uprisings and subsequent revolutions in several MENA countries in the wake of the 2011 Arab Spring have shown that the social contracts prevailing in the region have ultimately failed. The revolts then, as well as more recently,[2] have pointed to the increasing dissatisfaction of the population with economic and social opportunities. The states/governments of the region, therefore, find themselves in need of redefining their relationships with society – the social contracts – to ensure that they can stay in power and/or better meet the demand of their constituents. In this paper, we use Loewe et al.'s definition of what a social contract is (2017, p. 2): "[A]n explicit or implicit, formal or informal or mixed agreements between the various groups that make up a society and the government (or any other actor in power) defining their rights and obligations towards each other." We take a normative perspective and argue that, for social contracts to be sustainable, they should be inclusive and deliver in terms of development outcomes (in other words: provide jobs, reduced poverty and improved standards of living).

This current section not only outlines how the old model failed but also what elements would be essential for a new social contract within the MENA region. It then discusses the role that industrial policy could play in contributing to such a new social contract by integrating into its design and implementing essential mechanisms that would improve its effectiveness in generating jobs and achieving long-term growth.

2.1 The old social contract

In the 1960s, most states of the MENA region had gained independence or were about to do so. Driven by the task of nation-building and prevailing economic policy,[3] the young states adopted a "strong interventionist-redistributive" development model (Yousef, 2004, p. 92). This model consisted of two key aspects: first, the state took major control of the economy in the implementation of economic plans and the determination of priorities. During this time, most countries in the region adopted an import substitution

2 We are referring here primarily to the 2016-2017 demonstrations in the Rif area of Morocco, as well as to those in Jordan in 2018, mostly driven by dissatisfaction with the nature of government action towards social inclusion, job opportunities, and development more generally.

3 After World War II, the policy of institutions such as the World Bank fostered a strong role for national governments in the economy, for example through the preparation of economic plans (Yousef, 2004).

industrialisation strategy,[4] which included strong protectionist measures and the nationalisation of assets. Second, social programmes were implemented to overcome the socio-economic deficiencies that the region faced at that time, including the provision of healthcare, education, housing, public-sector jobs and subsidies for basic supplies such as food and energy (Yousef, 2004; Cammett, Diwan, Richards, & Waterbury, 2015).

Until the 1970s, this development model reaped unprecedented successes regarding economic and social development, boosting indicators from economic growth to life expectancy and poverty rates. In resource-rich countries, a major factor in sustaining this development were oil and gas revenues, which allowed these states to redistribute the acquired wealth among their population through welfare systems. Resource-poor, but labour-rich countries of the region (such as Morocco, Tunisia and Jordan) benefitted from remittances sent by citizens who had gone abroad to work in the oil states, especially the Gulf region (Yousef, 2004), foreign aid, and other rents (such as user fees for the Suez Canal in Egypt as well as military aid). This period essentially shaped and established the social contract[5] typical for the MENA: the population (especially elite groups) was provided with socio-economic security, but in turn traded most of its political freedom. Redistribution of external rents was a major element of state measures to fulfil its part of the bargain, through mass provision of jobs in the public sector, generous food and energy subsidies and social assistance, free health care services and education (Loewe et al., 2017). Other distinct characteristics were the use of repression and the extensive patronage networks employed to control opposition and at the same time to nurture a core constituency (Schlumberger, 2004). This was reflected in the oversized military apparatuses of many MENA countries (Rougier, 2016) and the privileged access to benefits for segments of the society that supported the non-democratic regime.

However, from the 1980s onwards, the weaknesses of the MENA development model and the social contract that had resulted from it became apparent. The burden of large transfers to households paired with the inefficiency and lack of competitiveness of state-owned companies, overly high rates of protection, and the sustained need for imports resulted in unsustainable budgetary deficits and balance-of-payment imbalances in many countries. Declining oil prices in the mid-1980s and an increasingly competitive international environment further worsened this outcome, which made it even more difficult for the already weak private sector to integrate itself into global markets.[6] As a consequence, especially the resource-poor countries of the region were forced to adopt economic liberalisation policies and reduce public spending (Rougier, 2016; Yousef, 2004; Cammett et al., 2015). These policies, however, were inconsistently and incompletely implemented,

4 The rationale behind this approach is to trigger industrialisation processes through the development of manufacturing sectors. Since those emerging sectors are not yet efficient and, thus, not yet competitive, they need to be protected from international competition until they mature – an idea that stems from the infant industry argument.

5 In this study, we use the term "social contract" as per Loewe et al. (2017) to describe an implicit or explicit agreement between the members of society and the government that defines their respective rights and obligations.

6 Malik and Awadallah (2013) point to additional obstacles to a thriving economy in the Middle East: state-business relations based on patronage networks, thereby putting newcomers at a disadvantage and preventing a competitive environment; regional fragmentation, eliminating the advantage of specialising in complementary goods; and high non-tariff barriers.

leaving the social contract challenged, but still in place. By 2010/2011, as the labour force increased[7] more than the number of jobs and as the price of key commodities soared, the prevailing social contract was called into question through the manifestation of Arab Spring uprisings across the region.

Undermined opportunities for competitive entrepreneurship further amplified dissatisfaction with the prevailing social contract. Across the region, mistrust in state institutions as well as state-business relations cumulated over time, mainly due to the preferential treatment of narrow elite private-sector groups, rent-seeking and corruption, red tape, and the over-inflated public sector (Nabli, Keller, Nassif, & Silva-Jauregui, 2006; Benhassine, 2009). As Nabli et al. (2006, p. 4) argue, since the 1980s, industrial policy has "played a more passive role, that of preserving existing structures", driven by the efforts of most governments to remain in power by offering rewards to supporters and deterring the formation of opposition groups, especially in the economic sphere (Saadi, 2016). Heydemann (2004) points to the emergence and persistence of "networks of privilege" which created elite groups that were resilient to changes in policy; as such, any changes in industrial policy led to a "reorganisation of opportunities for rent-seeking rather than eliminating them" (Nabli et al., 2006, p. 13). Such networks of patronage made investment in rentier activities more lucrative, focused on non-tradable sectors, and spent significant effort on lobbying for inefficient protection from competition; all these in turn discouraged innovation and entrepreneurship, reducing competitiveness in the private sector (Saadi, 2016; Mesbahi, 2017).[8] By consequence, in Morocco for example, more than half of public investment is channelled through state-owned enterprises (SOEs), 40 per cent of which goes to four SOEs (Ndoye, Ntsama, Auclair, Ghiaie, & El Fayoumi, 2017, p. 30), thus leaving a large part of the private sector, primarily small and medium-sized enterprises (SMEs), at an economic and competitive disadvantage.

2.2 Pre-requisites for a new and more sustainable social contract

Weak economic performance and asymmetric developments are a result of and have been directly shaped by past policies and politics. Thus, a new and sustainable social contract needs to be established in the MENA countries, whether they have experienced revolution or not (yet). This would require the government and society to find a new equilibrium that leaves both sides better off than they currently are. Consequently, a new social contract would have to redefine key aspects and dynamics of the old one (Devarajan & Mottaghi, 2015; Malik & Awadallah, 2013; Larbi, 2016), such as the following:

7 Demographics was a major factor in the erosion of the social contract in certain countries of the region during the Arab Spring from 2011 onwards (Malik & Awadallah, 2013). The improvement of social indicators after World War II had led to population growth, as fertility rates only slowly started to decline. Thus, young and increasingly well-educated people entered the labour markets and found themselves unemployed and without economic perspectives. The population explosion has left the welfare state – and hence one element of the social contract – pushed beyond its capacities and unable to deliver on the expectations of the population (Malik & Awadallah, 2013; Yousef, 2004).

8 In a recent report for the International Monetary Fund (IMF), Ndoye et al. (2017) show that between 1999 and 2015 structural transformation was limited in Morocco, with labour shifting away from agriculture but into low productivity growth sectors, such as finance and real estate (see the revealing Figure 4 in the report).

- Government expenditures should be focused on the provision of public goods and services and their quality improved (for example, education and training aligned to the needs of the private sector; health; infrastructure; housing);
- At the same time, subsidies to producers and consumers, as well as welfare spending should be reformed;
- Governance and decision-making should be based on a more responsive and inclusive approach (for instance, state-business relations that reflect "embedded autonomy"), more accountability, evaluation of outcomes and transparency;
- To more effectively reduce unemployment, private sector entities should play a central role in the design of economic, industrial and employment policy strategies, while competition and equal opportunities for all entrepreneurs should be promoted;
- Lastly, higher political participation of societal groups (citizens and other stakeholders) in policy-making would be desirable.

To expect that these desirable features of a new social contract would materialise easily and in their entirety in any of the MENA countries would be unrealistic, given the prevalence of patron-client networks in developing countries in general (as extensively discussed by Mushtaq Khan (2010) and others). Yet, it is reasonable to argue that steps towards achieving some of these objectives could pave the way for the emergence of a new social contract that could lead to more inclusive and long-term development. Even if this normative take on the social contract might suggest a shift towards a typical Western good-governance agenda, we do not see this materialising, or even necessary, in the MENA or Moroccan context. Rather, as Loewe et al. (2017) argue, a new social contract could reflect power imbalances "as long as both contracting parties do not believe they have any chance to improve their position by a renegotiation of the contract"; or as long as changes lead to a Pareto improvement in their social and economic condition. Such an outcome would speak to North, Wallis, Webb, & Weingast's (2009) concept of limited/open-access orders based on which, to ensure stability, elites configure institutions to incentivise powerful groups to cooperate. Further, Khan (2010) and others (such as Behuria, Buur, & Gray, 2017) refer to the political settlement theory and Pritchett et al. (2018) to the concept of rents space to explain how depending on the way power is structured within the ruling coalition, reconfigurations of state-business-society relations can emerge, which, under certain conditions, can lead to more inclusive and development-oriented outcomes. An in-depth discussion of this literature and its implications on our case study is instructive, but more research is needed to explain in greater depth the political economy context for our case study.

2.3 Industrial policy and its contribution to a new social contract

Industrial policy in the MENA region must follow a different approach in order to ensure the following: long-term growth; a shift in the economic structure towards high productivity sectors; employment creation; and the alleviation of inequality and poverty. Moreover, the effectiveness of industrial policy critically depends on a policy-making process that is participatory and based on the monitoring and evaluation of outcomes. Such changes are increasingly seen as necessary in the MENA region in spite of the complex and stable political economy context over time (as discussed earlier). While

repression (as in the case of Egypt) might be a short-run alternative to staying in power, rulers have expressed awareness of the need and interest in supporting a path towards sustainable economic and political development (for Morocco, see CESE [Conseil Économique, Social et Environnemental] 2017, for example).

In the current context of regional instability, job creation and economic growth in these countries have never been more urgent. Politics aside, failed economic performance and unemployment – and, by consequence, the erosion of the social contract – can be easily traced back to a weak private sector. Enabling firms in the private sector to become globally competitive would lead to more and higher quality jobs, raise the return to education, and stimulate growth (Jaud & Freund, 2015). Industrial policy – referring to government policies directed at affecting/changing the economic structure of the economy (Stiglitz, Lin, & Monga, 2013) – and enhancing competitiveness should thus be in the focus when seeking new visions for the social contract. As the state is in the driver's seat when it comes to designing and implementing industrial policy, the risk of corruption, patronage, and state capture by the interests of business elites is high (an issue that has been widely discussed in literature). Thus, in designing and implementing industrial policy, the objectives should go beyond the ultimate goal of making it work for jobs, growth, and development; policy should also seek to pave new ways of collaboration between the government, business and non-business actors such that the interests of all entrepreneurs (and not a select few) and of the society at large are considered. Accountability and monitoring mechanisms can then contribute to reducing corruption and patronage, and can foster learning in the policy and production sphere. Thus we argue that an (effective) industrial policy aimed at stimulating employment and growth that also benefits from the above "qualities"/characteristics could contribute to paving the way for a new social contract. After a short overview of the type of instruments generally considered part of the industrial policy toolbox, we will elaborate on these two characteristics of effective industrial policy with relevance for a new social contract: i) embeddedness achieved through cooperation across stakeholders, which can lead to higher levels of inclusion; and ii) autonomy, achieved through monitoring and evaluation, both of which can also ensure higher levels of accountability and can support learning. These two dimensions will remain the focus of our empirical study on Morocco's industrial policy.

2.3.1 Industrial policy instruments

While the use of industrial policy as a means to achieving structural change has been widely debated, its theoretical justification remains strong.[9] Industrial policy serves as an essential mechanism to correct market failures and promote competition, technological advance and innovation. The industrial policy toolbox includes diverse instruments that have been generally classified into horizontal and vertical policies, depending on whether they focus on the economy as a whole or target a particular sector (Pack & Saggi, 2006). Yet, in spite of the fact that whether to target firms or industries (that is, "pick winners") has been one of the most contested questions in industrial policy, more recently consensus seems to have been reached that this distinction between horizontal and vertical policies is

9 Rodrik (2008), among others, provides a detailed discussion on the different arguments brought forward by proponents and opponents of industrial policy.

a false choice as (most) policy measures, by design, end up favouring some sectors over others (Stiglitz et al., 2013; Chang, 2010). Thus, tools of industrial policy are those interventions that not only aim to increase efficiency and productivity for the sectors and their firms, but also for the economy as a whole. As Salazar-Xirinachs, Nübler and Kozul-Wright (2014) (based on Fernández-Arias, Agosin and Sabel (2010)) argue, it is important to focus on interventions that, for instance, relax sectoral constraints; promote learning and skill development; address coordination problems in sectors to stimulate more effective collective action among private and public actors; and create incentives for exploring new dynamic comparative advantages and to increase exports. Effective policies would be those that include standard setting, programme reviews, automatic sunset clauses, clear benchmarks for success or failure, monitoring, and periodic evaluation exercises.

Apart from identifying the right policy tools, the main challenge, however, lies in the ability of governments to select appropriate sectors that are in accordance with existing or latent comparative advantage (determined by the country's factor endowment), and to "tap into the potential advantages of backwardness in industrial upgrading" (Lin & Treichel, 2014, p. 73).[10] Analytical tools such as Lin and Monga's (2010) Growth Identification and Facilitation Framework, or Hausmann, Rodrik and Velasco's (2005) Growth Diagnostics Framework can contribute to identifying industries where a country may have a comparative advantage and where most constraints to growth lie (Altenburg, Kleinz, & Lütkenhorst, 2016). The government can play a role in eliminating the constraints that prevent such industries from emerging and growing, with measures to improve the business environment, increase production, foster and disseminate productivity-enhancing knowledge, and enable upgrading through innovation, as markets on their own will not produce enough growth-enhancing investments.

2.3.2 Key characteristics of an effective industrial policy

It follows from the above that, as Rodrik (2008) argues, the key question is not *whether* industrial policy should be used and *what instruments to use*, but rather *how* the policy should be applied, as the real challenges lie in its implementation. More precisely, they lie in the ability of policy-makers to correctly identify market failures and to address rent-seeking and corruption. Altenburg (2011) also stresses the importance of the government's willingness[11] and ability to implement an effective industrial policy strategy. Ability is especially a problem in developing countries that have to cope with limited resources and

10 As Lin and Treichel (2014) explain (p. 73) "the advantage of backwardness refers to the fact that a developing country can benefit from the technological/industrial gap with advanced countries by adopting a new technology or entering an industry that is new to its economy but mature in the advanced countries. In this situation, the cost of innovation in the developing country will be substantially lower than in the advanced countries that need to invest or innovate."

11 Through the concepts of political settlements and rents space, Pritchett, Sen and Werker (2018) and Khan (2010) help to explain under what conditions elites would be willing to engage in new strategies that not only generate rents for a select few but also lead to improved economic outcomes for larger groups. Future research is needed to explore these political economy dynamics in more detail for our specific case.

a lack of institutionalised systems of checks and balances.[12] Whitfield et al. (2015) add to this argument by emphasising that, as structural change requires reallocation of resources and economic benefits, governments must be "willing and able to enforce implementation of socially contested decisions" (Whitfield et al., 2015, p. 5). To this end, fostering alliances and cooperation across diverse groups of stakeholders in the private sector becomes critical, as well as putting in place accountability mechanisms to reduce the risk of rent seeking and corruption. For this reason, we focus below on two main aspects found to be essential for an effective industrial policy and which we consider to also be relevant within the context of a new social contract: state-business-society relations defined by embedded autonomy; and mechanisms to ensure accountability, monitoring, and learning in design and implementation.

Embedded autonomy

Structural change and productive transformation of an economy needs to be essentially based on an agreement of different stakeholders within the society with regard to the direction of change, a national vision for future development. Such a broad consensus or agreement is important as different stakeholders may follow diverging objectives, and it should form the cornerstone for a new social contract, as discussed earlier. It follows that, while preserving its leading role and autonomy, the state's governance pattern should emphasise collaboration and inclusiveness. The concept of "embedded autonomy" (Evans, 1995, p. 12) describes this approach. It argues that governments need to maintain ties to society that can provide "institutional channels for the continual negotiation and renegotiation of goals and policies" (Evans, 1995, p. 12). Put differently: For governments to understand what the needs of different stakeholders are, they must establish and maintain a close communication/engagement with the private sector. Evans also highlights that at the same time governments must preserve their autonomy to avoid political capture.[13] Evans and Heller (2015) go a step further by arguing that states with developmental ambitions should seek engagement with as wide a segment of society as possible, instead of relying primarily on the business elite. Regeni and Vidican Auktor (2017) also stress that, to attain the developmental objectives in the 21st century context,[14] state embeddedness in society should take an "augmented form" to include other stakeholders as well, such as trade unions, academics, and civil society groups, not only at national but also at regional and municipal level. This would enable "participatory political institutions to elicit and aggregate local knowledge" (ibid., p. 24). Such deep state-society relations are seen to be fundamental to policy innovation (Baiocchi, Heller, & Silva, 2011). This is important as in the current environment of strong market interdependencies states should make the most of the policy space to improve market

12 Other aspects are obviously just as important, but the scope of this paper does not allow us to discuss them. For example, Rodrik (2008) and others stress the importance of offering incentives (or subsidies) to companies to engage in new projects /investments, but ending them when they do not serve the initial purpose anymore.

13 Admittedly, it should be stated that, in reality, the line between collusion and collaboration is not as solid as it seems in theory and that these sometimes flow seamlessly into one another (Whitfield et al., 2015).

14 Regeni and Vidican Auktor (2017) focus on the defining challenges for development in the 21st century: i) climate change and environmental degradation; ii) increased digitalisation; iii) changed policy space for individual states due to increased market interdependencies.

conditions, the quality of the labour force, and conditions for technological upgrading. Such an augmented form of embedded autonomy is also important to avoid state capture. Devlin and Moguillansky (2011), for example, emphasise that partnerships and public-private alliances, consultation and coordination between public and private institutions, focused on concrete objectives, prove necessary to put policies on an effective course and reduce rent-seeking.

Such deep cooperation and such a level of embeddedness does not remain at a theoretical or normative level; rather, as Salazar-Xirinachs et al. (2014) show in their edited volume, it is to be seen in practice as a recent concern/goal of industrial policy-making. Identifying and accounting for the interests of diverse sets of stakeholders requires "effective coordination mechanisms" (Salazar-Xirinachs et al., p. 32) which can take the form of, for example, sectoral councils or committees, informal networks of communities of practice, public-private partnerships, or national competitiveness councils. Such close cooperation can also contribute to increasing trust among stakeholders and can reduce uncertainties/ambiguities in economic, social and political relations (Mesbahi, 2017). These altered forms of public-private cooperation could potentially also be preferred by the ruling elite as a more sustainable economic and political development may avoid future political instability which might undermine future rents even for the powerful groups.

Monitoring and evaluation

While it is relatively "easy" to achieve embeddedness as described above, realising autonomy is challenging given that it is normal to expect that businesses (as well as workers) would try to defend and lobby for their own interests. To this end, measures to ensure accountability of industrial policy are necessary, such as making explicit the role of public and private agents, and stating clearly what the expected benefits and obligations of all involved are (Ferraz, Kupfer, & Marques Silveira, 2014). But, while this is often done, other aspects are perhaps even more important. Specifically, setting detailed policy targets and indicators to measure the outcomes, and integrating into policy design mechanisms for monitoring and evaluation (Altenburg & Lütkenhorst, 2015) are essential ingredients for effective policy. Although having in place a structured system for monitoring and for assessing performance can be complex and difficult, this is essential for a government's autonomy (by limiting the likelihood of abuse in implementing policies), improving transparency of objectives and outcomes for the relevant stakeholders. Together with the conditions for embeddedness discussed above, these are likely to foster more inclusive relations between the state and society and secure a welfare-enhancing development outcome, therefore laying the foundations for a new social contract.

In the process of monitoring and evaluation, policy learning and experimentation should also be promoted. These need to be of a collaborative nature and must foster an exchange that can lead to joint conclusions and decisions. In fact, having in place checks and balances significantly contributes to policy learning. Nübler (2014) and Stiglitz and Greenwald (2015) also stress that mechanisms to monitor progress and provide feedback contribute to governments, firms, and workers "learning to learn", a process which is at the heart of learning organisation and learning societies. Further, learning processes for productive transformation, outside of the policy realm, are a precondition to upgrading and should be deliberately targeted to ensure the development of national firms and skills. This is important because, while international firms can satisfy objectives of production and job

creation in the short term, they may decide to leave the country at some point in time, and the country then has to be able to rely on its domestic capabilities (Whitfield et al., 2015). Education, technology and research and development (R&D) programmes and export promotion are such policies that shape and may accelerate learning in the production sphere, enabling firms to build up increasingly complex technological and organisational capabilities.

3 Data collection for this study

The analysis of the Moroccan case is based on both primary and secondary data. Primary data was collected in Morocco in Spring 2016 and in Autumn 2017 through semi-structured interviews. The fieldwork was conducted with a special focus on three industrial sectors targeted by industrial policy since 2005:

- The **automotive sector**, which has seen the most dynamic development since 2005;
- The **electronics sector**, a strategic sector for Morocco, that has been among the main drivers of growth in developing countries, offering high potential for integration with other sectors, such as the automotive and the aeronautics industry; additionally, it provides potential opportunities for the integration of local firms in the lower tiers of their value chains;
- The **textile and apparel sector***,* a traditional sector of the Moroccan economy and, at the same time, the largest employer within the industrial sector.

Targeted interviewees were representatives from ministries and government institutions, industry associations, research and training institutions, as well as major companies. Forty interviews were conducted with various stakeholders, including: policy-makers concerned with industrial development (11 interviews); industry representatives (18); and representatives from academia and research involved with learning processes and knowledge transfer (7) (see Table A1 of the Annex for the list of interviews).

Primary data was supplemented by a substantial number of secondary statistics and reports that were collected during the fieldwork as well as industry publications and media articles. Having said this, the collection of secondary data posed its own particular challenges.

First, obtaining clear and detailed information on the three industrial policy strategies implemented since 2005 was complicated by the fact that no comprehensive documents had been published for the first and the last policy plans. Only the second strategy was written down in a coherent, published report. Information on the other two policies had to be collected from various different sources, such as interviews and newspaper articles. For the latest policy plan, the Moroccan Ministry of Industry, Trade, Investment and Digital Economy (*Ministère de l'Industrie, du Commerce, de l'Investissement et de l'Économie Numérique*), hereafter Ministry of Industry, also provides key information on its website. However, many details of these policy plans, especially at the sectoral level, were often contained in various presentations that were obtained from interview partners, but are not publicly available.

A second challenge relates to the collection of secondary statistics. Specifically, the definition of sectors by Moroccan statistical authorities does not necessarily follow international statistical standards, but rather a practical and business-oriented approach. This leads to the situation that some sectors or sub-sectors recognised by international classifications, such as the International Standard Industrial Classification (ISIC) code classification, are classified differently in national statistics, especially when it comes to the automotive, electronics and aeronautics sectors. Wires and electronic transformers might, for example, be listed in the electronics division of the ISIC classification, but be considered part of the automotive sector by national statistics related to industrial policy, if the producing company mainly supplies this segment.

Further, statistics can vary considerably depending on the publishing entity. In Morocco, relevant statistics are published by the High Commissary for Planning (*Haut-Commissariat au Plan,* HCP), which provides official statistical data based on international nomenclature within the framework of the national accounts. Additionally, the HCP conducts surveys on a regular basis (typically every five years), for example on the structure of the manufacturing sector. The Ministry of Industry also collects and provides data on the industrial sector. It conducts an annual company survey that is based on its own dataset of firms.[15,16] This data, however, is structured to reflect the key sectors targeted by industrial policy. Thus, differences arise between statistical information published by each of the institutions, which is based on a diverging definition of certain sectors.

In consequence, the evaluation of the automotive and electronics sectors is challenged by the fact that their definition within the industrial policy framework does not correspond to their ISIC classification. We therefore had to decide whether to base the analysis of these sectors on data structured according to national authorities responsible for industrial policy or to the ISIC classification. We chose to use the ISIC classification since it represents an international standard based on the United Nations Industrial Development Organization (UNIDO) Industrial Statistics dataset. To address the issue that some sub-sectors that are relevant within the industrial policy framework would be excluded by only analysing the ISIC sub-categories that are mainly related to the automotive and electronics sectors (ISIC codes 31 and 34), the development of the mechanics, metallurgy and electronics sectors as a whole (ISIC codes 27-37) will be analysed in addition to these two to provide a comprehensive picture (see Table A2 of the Annex for a comprehensive list of the ISIC codes considered).

It needs to be highlighted, though, that some limitations remain: an exact evaluation of the official objectives of the industrial policy in that period is not possible based on international nomenclature, as the key sectors have not been defined on that basis. Nevertheless, the automotive and electronics sectors as targeted by industrial policy will be reflected in the different categories of ISIC codes 27-37 (that is, the mechanics, metallurgy and electronics sectors). However, as these ISIC codes include more than those

15 In a recent video published on Youtube, Othman El Ferdaous, State Secretary at the Ministry of Industry, explains that the Ministry's database consists of a combined dataset obtained from the National Social Security Fund (CNSS), the Directorate-General of Taxes and the *Office des Changes* (see https://www.youtube.com/watch?v=hlHFbGXntEM).

16 Interview 27; 29; 34; 39.

two activities, their analysis can only provide a rough approximation of their development. The closer examination of ISIC codes 31 and 34 will allow for a more specific analysis, but be limited in two regards: first, we cannot clearly disentangle which parts of the electronics sector might be counted as automotive from an industrial-policy perspective, and, second, we have to neglect some sectors that are relevant for automotive sector, but listed under other ISIC codes, such as certain plastic and glass products.

4 Framework conditions and industry in Morocco

This section provides a background to the challenges and opportunities faced by Morocco in general as well as the past development of the industrial sector and some of its sub-sectors. It will show that while factors such as the country's geographical position, its growing openness, low labour cost and political stability vis-à-vis other countries in the region provide major opportunities for economic development, Morocco also remains challenged in the areas of education, business climate, corruption, competitiveness, and innovation. Subsequently, discussing industrial development in particular, we will see that, despite the efforts directed towards it and successes in absolute terms, structural change driven by the industrial sector remains elusive. Nevertheless, some sub-sectors have successfully developed. Notably, over recent years, the electronics and automotive sectors have experienced strong growth in terms of production and exports as well as employment.

4.1 Framework conditions

With a gross domestic product (GDP) per capita of USD 2,832 (current) in 2016, Morocco is ranked by the World Bank among the group of lower-middle-income countries (World Bank, 2017). Compared to its North African neighbours, the country falls behind Algeria, Tunisia and Egypt (with USD 3,844, USD 3,689 and USD 3,515, respectively) (ibid.). Also from a broader development perspective, Morocco ranks behind those three, occupying the 123rd position in the 2016 Human Development Index compared to 83 (Algeria), 97 (Tunisia) and 111 (Egypt) (UNDP [United Nations Development Programme], 2016).[17] Yet, over the past decade from 2007 to 2016, Morocco has experienced economic growth of on average 3.8 per cent for the entire period, thereby overtaking Tunisia (2.8 per cent) and Algeria (3.1 per cent), but not Egypt (4.2 per cent) (UNDP, 2016).

Opportunities

With regard to industrial development, Morocco profits from several favourable conditions. Its **geographical position** only 14 km away from the Spanish coast and European markets provides short trading routes and bears the potential for logistical advantages compared to Southeast Asian or Latin American countries. At the same time, Morocco can access developing African markets to the South. Recently, the proximity to African markets and the opportunity of becoming a leader to the neighbouring economies

17 A similar ranking is also showed by the Gini coefficient.

in the South have come to form an important pillar of the Moroccan industrial policy plan (MCINET [Ministère de l'Industrie de l'Investissement du Commerce et de l'Economie Numérique], n. d.-b).

The opportunities for integration into global markets are further supported by various **trade agreements** that Morocco has concluded in the past. In 2000, an Association Agreement between Morocco and the European Union (EU) entered into force, which created a free trade area between the two countries. Later, in 2008, Morocco was granted advanced status and subsequently entered negotiations on a Deep and Comprehensive Free Trade Agreement in 2013 (European Commission, n. d.). Furthermore, Morocco became a member of the Euro-Mediterranean Partnership aimed at deeper economic integration in 2000 and joined the World Trade Organization, the Greater Arab Free Trade Area, as well as the Arab Maghreb Union. In addition to these, further free trade agreements are in place with Tunisia (Erdle, 2011), Jordan and Egypt (within the framework of the Agadir Declaration), as well as the United States and Turkey (European Commission, n. d.; WTO [World Trade Organization], n. d.-a; Invest in Morocco, n. d.-a). In addition to the orientation towards Western countries and North African neighbours, China has increasingly become an important player and industrial partner for Morocco. In 2017, the Chinese group BYD signed an agreement with the Moroccan ministers of industry and economy on an investment project in the area of electrical transportation supposed to create 2,500 jobs (Telquel.ma, 2017).

Low **labour costs** is another factor that has often been mentioned as a major asset and reason for coming to Morocco by different stakeholders during the fieldwork.[18] In the Moroccan industrial sector, the average annual wage amounted to EUR 5,016[19] in 2015 being the lowest in the textile and leather industry where it only reached EUR 3,000[20] (HCP [Haut-Commissariat au Plan], 2017b).

On a political level, Morocco has shown a remarkable resilience and **political stability** during the uprisings and protests that have swept across the MENA region since 2011. After protests in major cities, King Mohammed VI passed a new constitution in 2011 to increase political liberty and pluralism. It attributed greater powers to the prime minister and the parliament while at the same time increasing decentralisation.[21] However, these concessions did not significantly limit his own powers. More comprehensive social development programmes were also implemented, but major disparities in terms of development between urban and rural areas persist, income inequality remains high even compared to the regional level (as discussed earlier), and unemployment and corruption remain major issues in the country. These shortcomings have been the source of recent

18 Interview 7; 10; 12; 26; 33.

19 This is equivalent to Moroccan Dirham (MAD) 56,000; EUR 1 = MAD 11.1638 according to the exchange rate from 11 January 2018 (OANDA currency converter, 2018). This exchange rate is referred to throughout the paper.

20 This is equivalent to MAD 33,500. For a more accurate assessment of the average wage, we would have to compare the same level of occupations. Since we do not have such data, we limit the assessment to a general one.

21 See Houdret and Harnisch (2017) for a detailed discussion of decentralisation efforts and their implementation.

unrest that intensified at the end of May 2017 mostly in northern and eastern Morocco.[22] Referring to Khan's (2010) political settlements framework, the recent decentralisation efforts in Morocco that fall significantly behind (Houdret & Harnisch, 2017), resulted in a form of competitive clientelism, which further constrain the effectiveness of social reforms and political liberalisation.

On an economic level, past policies have often followed the same pattern of implementing change without severely limiting the King's power. During the large privatisation programmes of the 1980s, a significant share of Moroccan state-owned companies was ceded to elite/ally groups in the private sector. However, these sales also served as a means of benefitting existing networks of privilege. As such, "they profited first of all the elites and groups of individuals who already held concentrations of considerable personal wealth" (Catusse, 2009, p. 9). Among those were also two private holdings belonging to the Royal Family, Omnium Nord Africain (ONA) and SIGER[23] (ibid.). In addition to that, supporting institutions that were created around the Millennium, such as the Regional Investment Centres, also remain under tight royal control as they are subordinate to the regional *Walis*[24] and the Ministry of Interior,[25] which itself is directly backed by the King (Catusse, 2009; Houdret & Harnisch, 2017). Accordingly, Catusse (2009, p. 26) comes to the conclusion that "the tools of public action have been transformed, although in the end the Palace continues to exercise little-shared authority […]".

Apart from institutionalised powers, the King also has a major influence over the Moroccan economy through its businesses. The most significant of those is the National Investment Company (*Société Nationale d'Investissement, SNI*), which was renamed Al Mada in early 2018 ("Maroc: Le holding royal change", 2018) and is a holding of the Moroccan Royal Family. Al Mada holds multiple investments in seven economic sectors, such as finance and construction, but also in the distribution sector where it is shareholder of the two automotive companies Sopriam (distributor of the brands Peugeot, Citroen, and DP) and Renault Maroc (Iraqi, 2016). The strong role and involvement of the King is, however, both an opportunity and a challenge. While it may reinforce existing networks of privilege, the King is also in a position where he can implement measures that are beneficial to the economy but will pose a disadvantage to traditional elites.

Challenges

Morocco is challenged by high unemployment, especially among young and educated people and this poses a continuous source of discontent among the population, pressuring the government to act. Morocco has a population of about 35 million people of whom 66 per cent are between 15 and 64 years old. Yet, the rate of labour force participation for this population group was estimated at only 44 per cent in 2016 (compared to 56 per cent in

22 See, for example, Errazzouki (2017) or BBC [British Broadcasting Corporation] (2017) for media coverage on the protests.

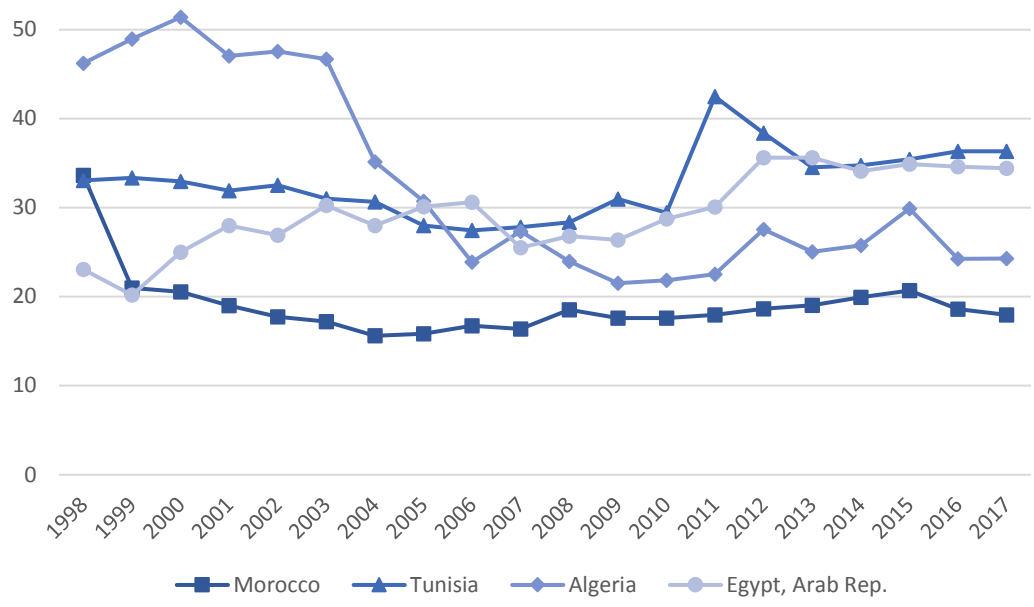
23 In 2010, ONA merged with the *Société Nationale d'Investissement* (now Al Mada) of which SIGER is a major shareholder. SIGER is also said to belong directly to the King (Lhomme, Benchemsi, & Davet 2015; "Maroc: L'ONA et SNI fusionnent", 2010).

24 *Walis* are prefects of one of the Moroccan regions who are appointed by the Ministry of the Interior.

25 Interview 30.

the OECD (Organisation for Economic Co-operation and Development) countries) (World Bank, 2017). This problem is reflected in an unemployment rate of 9.7 per cent in 2016 and especially the youth unemployment rate (15-24 years) of 20.6 per cent (World Bank, 2017) Another group that is affected in an above average way by unemployment are those with a higher education degree of which 21.2 per cent were unemployed in 2015 (OECD, 2017, p. 31). Unemployment is an "old" problem for Morocco, even if it has shown a continuous decline over the last decade.[26] Yet, as Figure 1 illustrates, youth unemployment increased from 2005 to 2015 and has only seen a small decline during the past two years. Nevertheless, in comparison to other countries of the North African region, Morocco shows the best performance.

Figure 1: Development of youth unemployment in Morocco during the last 20 years based on modelled ILO estimates (percentage of total labour force ages 15-24)



Source: Based on data from World Bank, 2017

A major hindrance for economic development, especially regarding technology-intensive activities, is the level of **education**. The enrolment rate in primary school (net) reached 98.9 per cent in 2014 and secondary education reached an enrolment rate of 90.4 per cent in 2013 (Castel, 2017, p. 12). However, values are still lower for women and for rural areas, in which illiteracy still reaches 66.4 per cent (Castel, 2017, p. 12). Moreover, while the completion rate improved over the years, it still remains low (86 per cent for primary education, 65 per cent for secondary education, and 38 per cent for vocational education) (UNESCO [United Nations Educational Scientific and Cultural Organization], 2015, p. 105). Thus, although educational outcomes have improved, these still do not fully pertain to all groups of society. Meanwhile, the quality of education also remains low.

26 Unemployment statistics can be problematic, in that they do not always show the full scale of the employment situation. The size of the informal sector, underemployment, or discouraged job seekers could reflect much more unemployment than official statistics.

International performance tests[27] among Moroccan students in the 4th grade of primary school and the 2nd year of high-school conducted in 2015 have revealed a well-below-average performance, although relatively similar to other countries in the MENA region, such as Egypt and Jordan (OECD, 2017, p. 51). Furthermore, it has been stated that the educational system lacks practical relevance as it is too theoretical and content does not match the needs of the market (Dadush, 2017).

Indicators for **business climate and corruption** have improved and show an overall positive development. The World Bank's "Doing Business Report" 2018 ranked Morocco in the 69th place, which is slightly worse than the 2017 ranking, but still represents a major leap forward compared to 10 years earlier when Morocco was still in the 129th place (World Bank, 2018). Morocco has also overtaken Tunisia and Egypt, which in 2018 ranked 88 and 128, respectively. It has become particularly strong in the areas of "dealing with construction permits" and "paying taxes"; nevertheless, especially the categories "getting credit" and "resolving insolvency" achieved weak results and remain a challenge for enterprises (World Bank, 2018). While business environment indicators have been improving, corruption remains an issue. The Corruption Perceptions Index 2017 ranked Morocco in 81th place, still before Egypt (117) but behind Tunisia (74). More than that, Morocco's score has only seen a small improvement compared to the 2012 results (Transparency International, 2018). This picture is reinforced by the results of an enterprise survey that was conducted by the World Bank in 2013, in which 20.6 per cent of the companies named corruption as the biggest obstacle to their business (World Bank, 2013).

Finally, **competitiveness and innovation** are crucial factors when it comes to entering global value chains and more particularly to increasing value-added and upgrading. The Global Competitiveness Index, which analyses competitiveness on the basis of 12 main pillars, ranked Morocco in 2017 as 71st among 137 countries (WEF [World Economic Forum], 2017). During the past years, the country's ranking has fluctuated slightly but has not seen much improvement from the 76th rank it occupied in 2005 (WEF, 2006). In the category "innovation", Morocco scores particularly low as well as below the MENA average. The quality of scientific research organisations and university-industry collaboration particularly weaken the country's performance in this category (WEF, 2017). The challenge that the capacity to innovate still poses to Morocco is also confirmed by its ranking in the Global Innovation Index, in which it similarly occupies the 72th rank out of 127 countries (Cornell University, INSEAD, and WIPO [World Intellectual Property Organization], 2017).

4.2 Development of the industrial sector

Recent industrial policy strategies implemented in Morocco aimed at achieving a range of objectives; on the one hand, the overarching goal was to bring about structural change by increasing the share of industry within total GDP. On the other hand, further objectives were defined with regard to employment, exports and investment. This section evaluates the development of the industrial sector up until 2013/2014 (the last available statistics). It shows that, despite the strong growth of output in some key sectors targeted by industrial

27 Trends in International Mathematics and Science Study and Progress in International Literacy Study.

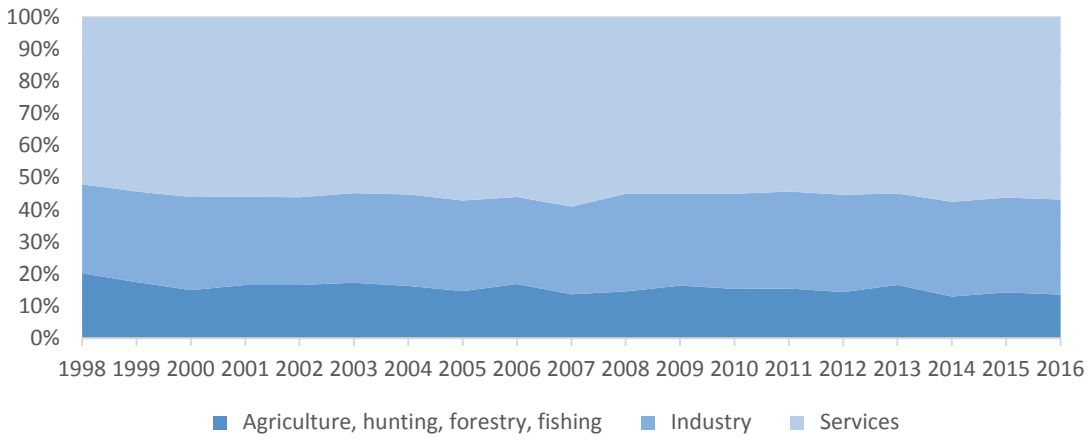
policy, such as automotive and electronics, a structural change on a broader level could not be achieved. This is mainly due to the low share of value added in these sectors, but also to the weak performance of other industrial sectors. The textile sector in particular, a major employer in manufacturing, has suffered since 2008 and has experienced harsh losses, especially in terms of employment and this has offset achievements in job creation that were made in other sectors.

4.1.1 General trends

In achieving structural change – which is the final goal of industrial policy– countries traditionally moved from an economy based on agriculture towards more manufacturing-intensive activities and finally to a larger contribution of the services sector. Thus, in the case of a successful transformation as targeted by industrial policy, it would be expected that one would observe a decline in the contribution of agriculture to GDP, which would be reciprocated in an increase in the industrial contribution.

In Morocco, the composition of GDP has only slightly changed since 1998, as illustrated by Figure 2. It is dominated by the services sector, followed by industry and agriculture. Remarkably, while the share of agriculture is reduced (from 20.2 per cent in 1998 to 13.6 per cent in 2016), this development is not reflected in an increase in the industrial contribution but rather in the one of the services sector, whose share rose from 52.1 per cent in 1998 to 56.8 per cent in 2016 (HCP, n. d., 2017c). Meanwhile, the industrial sector, which initially grew in the 1970s and 1980s (UNCTAD [United Nations Conference on Trade and Development], 2017) could not hold up this positive development and has been fluctuating around 28 per cent since 2000, reaching 29.6 per cent in 2016 (HCP, n. d., 2017c). There is, thus, little evidence in the period examined of a structural change as theory suggests and as aimed at by policy-makers. On the contrary, the pattern observed suggests a direct transformation towards a service-based economy without first passing through an increase in industrial production until a certain turning point has been reached – a phenomenon that has also been described by Rodrik (2015) as premature de-industrialisation.

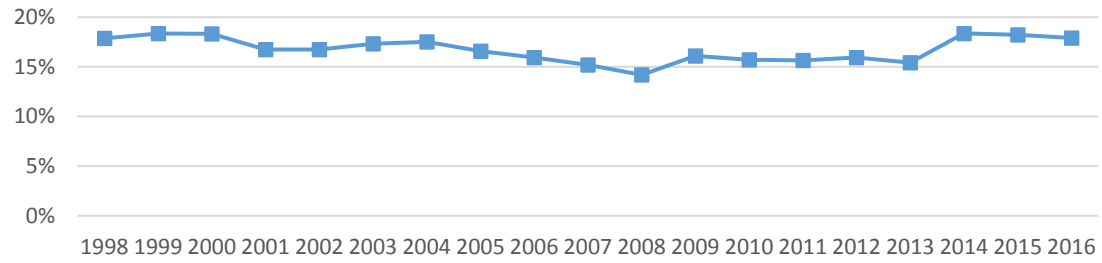
Figure 2: Development of the sectoral contribution to GDP (in per cent)



Source: Based on data from HCP, n. d., 2017b.

Manufacturing[28] shows similar trends (see Figure 3), as its share in GDP has remained constant or has slightly declined since the 1990s, dropping further below 20 per cent as of 2000 and reaching 18 per cent in 2016 (HCP, n. d., 2017c). This implies that, since the introduction of the new industrial policy framework in 2005, the development of the manufacturing sector has not seen any significant changes. Despite its relative development, the GDP generated by the manufacturing sector has been growing since 2000, from EUR 5.7 billion[29] at the time to EUR 14.4 billion[30] in 2016 (HCP, n. d., 2017c), a 2.5-fold increase.[31]

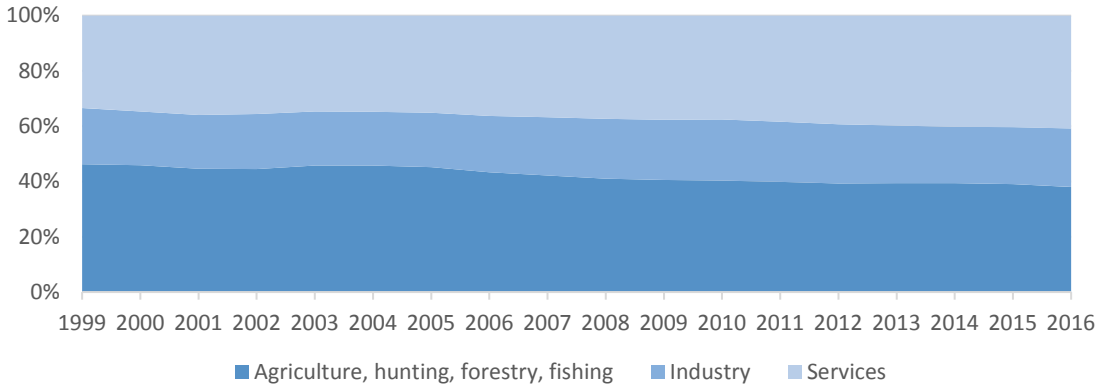
Figure 3: The share of manufacturing output in GDP (in per cent)



Source: Based on data from HCP, n. d., 2017b

Structural change also remains elusive with regard to employment. As Figure 4 shows, the relative sectoral shares have experienced only slight changes since 1999. Notably, the share of the industrial sector has constantly varied around 20 per cent, while the percentage of employees in the agricultural sector decreased from 46.3 per cent in 1999 to 38 per cent in 2016 (HCP, 2017a).

Figure 4: Employment by sectors (percentage of total employment)



Source: Based on data from HCP, 2017a

28 In contrast to industry, manufacturing does not include the areas mining and quarrying, oil refinery, electricity and water as well as construction.

29 Equivalent to MAD 64 billion.

30 Equivalent to MAD 160.4 billion.

31 The fact that this positive development is not reflected in the sector's relative share implies that the growth was not strong enough (in comparison to the other sectors) to allow a change in relative terms.

This reduction is mirrored in an increase of employment in the services sector. Hence, as in the case of their contribution to GDP, the sectoral development describes a direct move from agriculture to services without passing the industrial sector. Moreover, Morocco has also recorded the lowest levels of total factor productivity relative to emerging market peers,[32] undermining overall economic growth (Ndoye et al., 2017). More than half of jobs created since 2000 are also in low-productivity sectors, such as construction and hospitality.

At the same time, according to a report published by HCP (2017b), the annual productivity per worker in the manufacturing sector increased on average 2 per cent between 2006 and 2014. At the end of that period it reached on average EUR 13,436[33] per worker, although there is a strong variation among the different manufacturing sectors. Productivity was lowest in the textile, apparel, and leather industry at EUR 4,822,[34] while at EUR 30,077[35] the chemical industry exhibited the highest productivity. The electrics and electronics as well as the mechanics and metallurgy industries were slightly below the average at around EUR 2,293.[36] According to HCP, the average productivity reached by the manufacturing sector is nearly twice as high as the national average. The report also found that productivity is significantly higher in very large companies within the manufacturing sector. As such, the 1 per cent of companies with the highest turnover (85 per cent of turnover is generated by large companies, although they only make up 11 per cent of all companies) had a 4-times higher productivity than the rest (HCP, 2017b). [37]

These developments strongly burden Morocco in its quest to restructure its economy and create sufficient jobs for its growing population, even if the share of the industrial sector in GDP is higher than in many other African and Latin American countries. The weak development of the industrial sector in relative terms also questions the envisioned future of manufacturing and the strong emphasis put on it by policy-makers.

4.1.2 Focus on key sectors

Although there is, so far, no evidence that the industrial policy succeeded in bringing about a structural change, there have been remarkable developments on a sectoral level, notably within the automotive industry. This sub-section, therefore, will analyse the developments of the three focus sectors of this study (as explained in Section 3): the automotive and the electronics industry, which will be studied together due to the statistical problems explained in the previous section, and the textile industry.

32 Emerging Europe, Latin America and the Caribbean, Asia, and Tunisia,

33 Equivalent to MAD 150,000.

34 Equivalent to MAD 53,837.

35 Equivalent to MAD 335,779.

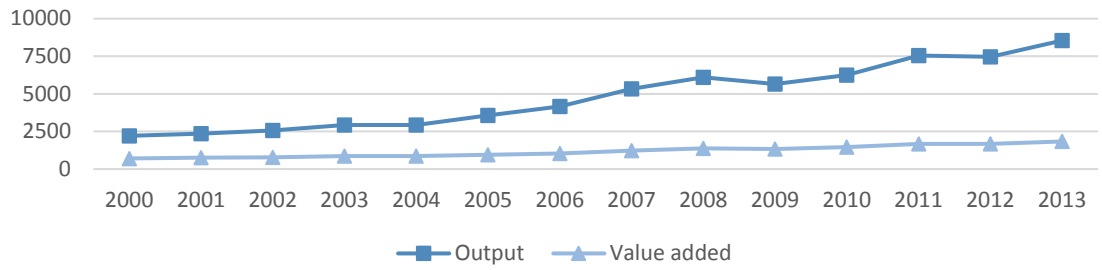
36 Equivalent to MAD 25,600.

37 If data were available, it would be interesting to know whether this outcome is due to incremental within-sector productivity growth or due to shifts across sectors (for example, from garments to the automotive sector).

The automotive and electronics industries

On average, output in the mechanics, metallurgy and electronics sectors has increased since 2000 and especially since 2005, and was only curbed in 2009 at the time of the global financial crisis (see Figure 5). Growing at an annual average rate of 13.2 per cent, the output more than doubled from 2005 to 2013, reaching EUR 8.5 billion[38] by the end of the period (UNIDO [United Nations Industrial Development Organization], 2017a). But, despite the strong growth in production, value added did not follow the same trend. Although it grew with an average annual rate of 8.9 per cent, the share of value added with regard to total production decreased from 26.8 per cent in 2005 to 21.5 per cent in 2013 (UNIDO, 2017a). This implies on the one hand that there was a positive sectoral development driven by the attraction of foreign investors creating jobs and business opportunities; on the other hand, it also shows that a large share of the total value added, that is of inputs, still had to be imported and were not (yet) produced locally.

Figure 5: Output and value added in the mechanics, metallurgy and electronics sectors (million EUR based on ISIC codes 27-37)

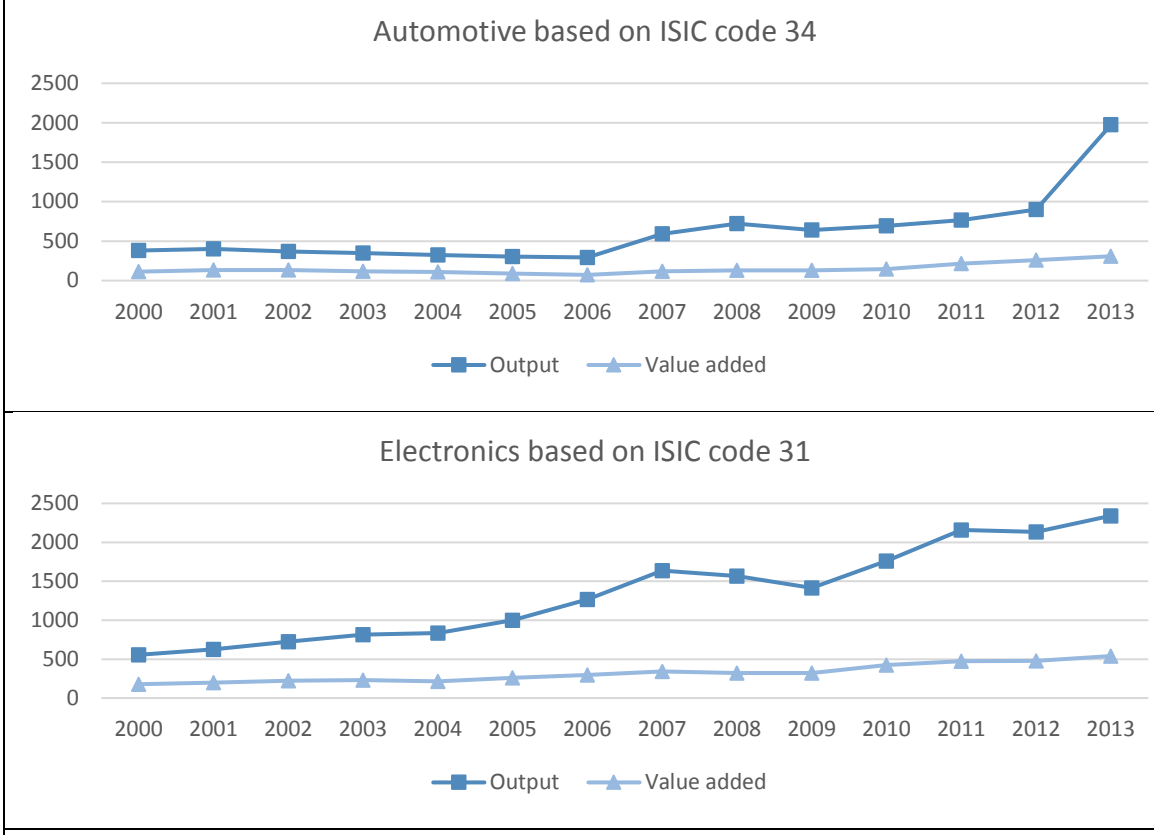


Source: Based on data from UNIDO, 2017a

Looking at the automotive and the electronics sectors in a narrower definition (based on ISIC codes 34 and 31), a similar pattern can be observed (see Figure 6). Both sectors experienced strong growth from 2005 onwards with the electronics sector exhibiting a stronger performance in terms of volume. In relative terms, the electronics sector grew on average 13.3 per cent annually from 2005 to 2013 and the automotive sector 15.7 per cent from 2005 to 2012. From 2012 to 2013, it experienced an extraordinary growth increase of 20.2 per cent with the opening of a new Renault production site in Tangiers. The strong increases in output in both sectors from 2005/2006 onwards initially led to a decrease in the share of local value added, which then stabilised and started to grow moderately reaching 23.04 per cent in the electronics sector in 2013 and 28.62 per cent in the automotive sector in 2012 (the spike in 2013 again led to a relative reduction of the share to 15.6 per cent) (UNIDO, 2017a).

38 Equivalent to MAD 95.4 billion.

Figure 6: Output and value added in the automotive and electronics sectors (million EUR based on ISIC codes 31 and 34)



Source: Based on data from UNIDO, 2017a

Production can either rise due to increased capacities of existing firms or due to new firms entering the market; accordingly yearly data for gross fixed capital formation also shows positive growth in both sectors (UNIDO, 2017a). In the case of the automotive sector, growth was largely driven by the increased production of motor vehicles. In the electronics sector, growth was driven by the category "other electrical equipment", which includes parts for vehicles and may, therefore, reflect developments in the automotive industry to a certain degree. In this segment, the number of companies increased by 39 per cent between 2005 and 2013 (UNIDO, 2017b). The low share of value added in the increased production, however, indicates that major components of the respective products still needed to be imported and were not produced locally. In fact, import data shows that in the automotive sector imports more than tripled from 2004 to 2014, especially in the parts and accessories segment (UNIDO, 2017c).

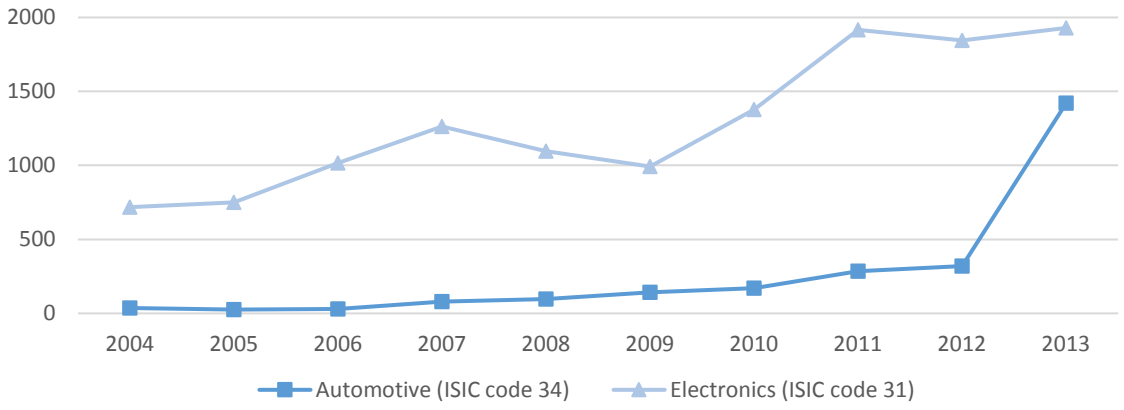
The structure of the automotive industry in Morocco explains these figures. It is dominated by Renault, which until recently was the only manufacturer in the market – from 2019 onwards, the company will be joined by PSA Peugeot-Citroen.[39] In its factories, Renault assembles complete vehicles mainly destined for export. Partly present before and partly

39 See Hahn and Vidican Auktor (2017) for more information on the background of those companies' investments in Morocco.

drawn by Renault in its effort to source locally[40] as well as the success of the sector in general, between 150 and 200 mostly international supplier companies were also active in the automotive market in 2016. The majority of those engage in activities that are labour-intensive and produce parts that can be classified as low- to medium-value added. The most dominant sectors present are wiring, metal processing, plastic processing and seats and seating systems. These companies can mostly be considered first- or second-tier suppliers but, as previous research suggests that they themselves still need to import a large share of their inputs, lower tiers seem to not yet be well represented/integrated. (Hahn & Vidican Auktor, 2017)[41] Nevertheless, Moroccan companies seem to be becoming increasingly integrated into the respective value chains and complement them, as evidenced by the slightly rising value added. However, this is happening significantly slower than the output growth and not yet to an extent that would lead to significant changes.

Exports generally reflect the development of overall production in both sectors, as illustrated in Figure 7. The electronics sector has a strong export orientation, with an average share of more than 80 per cent in total production over the last decade (DEPF [Direction des Études et des Prévisions Financières], n. d.). Considering its strong dependency on exports, it is no surprise that the sector experienced a downturn in 2008/2009, which can be expected to be related to the global recession sparked by the financial crisis (World Bank, 2009). The automotive sector has only developed its export capacities since 2004 (from 11 per cent to 82 per cent in 2013) (DEPF, n. d.). Exports first went to France in 2007, followed by a number of other European and North African countries in the following years (DEPF, 2015). The opening of the Renault factory in Tangiers in 2012 contributed to these results, as most of the production was for export markets.

Figure 7: Exports in the automotive and electronics sectors (million EUR based on ISIC codes 31 and 34)



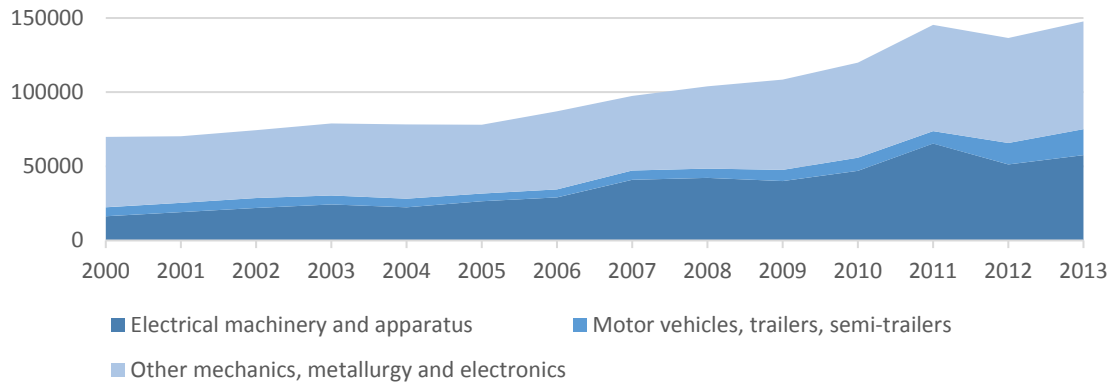
Source: Based on data from DEPF, n. d.

40 Renault and the Moroccan government agreed on a targeted rate of local integration of 60 to 65 per cent, meaning that this share of vehicle parts to be used for assembly needs to be bought from companies that are installed in Morocco (see also Hahn and Vidican Auktor (2017) for more details).

41 Supplier companies of the automotive industry include many companies that can also be considered as pertaining to the electronics sector, for example in the area of wiring. This is due to the transversal nature of the electronics sector and makes it difficult to give an adequate equivalent description of its company structure.

As one of its main goals, Moroccan industrial policy aimed at stimulating employment. Indeed, in line with other indicators as described above, employment within the mechanics, metallurgy and electronics sectors increased from 2005 onwards (see Figure 8). Growing on average 7.6 per cent per year until 2013, it reached 147,689 employees at the end of the period (UNIDO, 2017a). This positive development was even more pronounced on a sub-sectoral level: annual average growth in the electronics sector reached 12.7 per cent, while in the automotive sector it was 15.3 per cent (UNIDO, 2017a). Effectively, this more than doubled the number of employees in both sectors.

Figure 8: Employment in the mechanics, metallurgy and electronics sectors based on ISIC codes 27-37



Source: Based on data from UNIDO, 2017a

From 2008 to 2013, nearly 44,000 jobs were created in these sectors combined (UNIDO, 2017a). Yet, the Ministry of Industry's target has been to increase employment in the automotive, aeronautics and electronics sectors (included in the ISIC codes 27-37 as discussed in Section 3) by 94,000 between 2009 and 2015 (Royaume du Maroc 2008; UNIDO, 2017a). Hence, despite this positive outcome of job creation efforts, the achievement after 5 of 7 years seems to lack behind the set objectives.

According to a study by the Department for Studies and Financial Forecasting (*Direction des Études et Prévisions Financières,* DEPF) that defined the sectors from an industrial policy perspective, total employment in the automotive industry increased from 38,795 persons in 2008 to 70,000 persons in 2012 growing at circa 16 per cent annually (DEPF, 2015). This implies the creation of slightly more than 31,000 jobs in that period. Compared to the objective of 70,000 jobs to be created between 2009 and 2015, this number indicates a higher goal achievement rate than the approximation discussed above. It should be highlighted, though, that in both cases, this does not necessarily reflect a weak development with regard to job creation, as it may well be that the objectives were set too high, a "chronic" problem in Moroccan policy-making, as suggested by other analysts (Mesbahi, 2017).

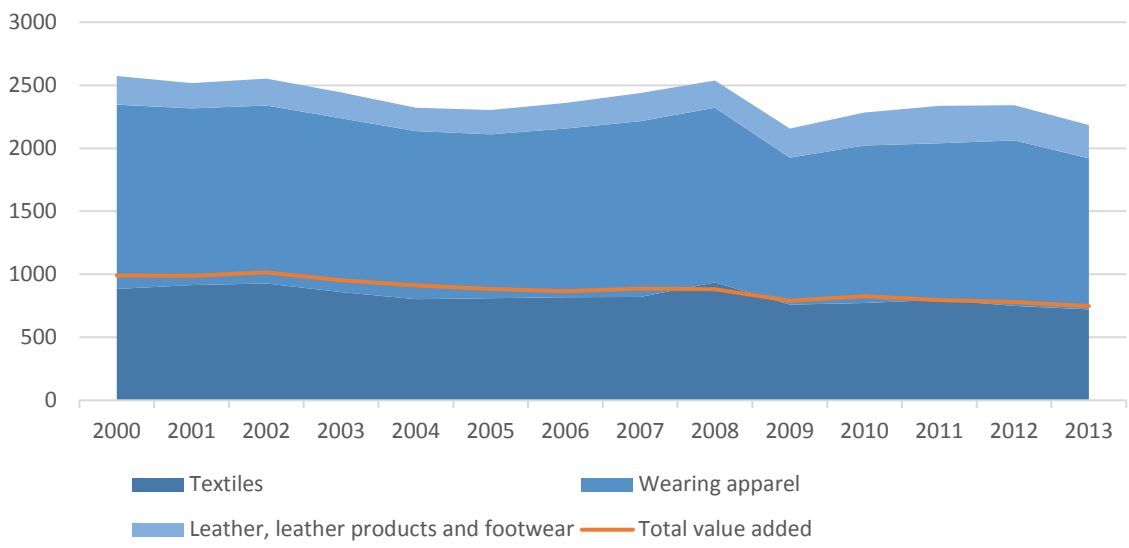
The textile, apparel and leather sector

Among the traditional sectors, the textile, apparel and leather industry has been defined as a key sector of industrial policy. As illustrated in Figure 9, the apparel sector is the most dominant among the three, accounting for nearly 55 per cent of total production in 2013, followed by the textile sector at 33 per cent (UNIDO, 2017a). Value added in this sector is

significantly higher than in the automotive and electronics sectors reaching 34.2 per cent in 2013.

In Morocco, this industry originated in the textile sector (for instance, spinning, weaving, cloth-finishing), which developed after independence, was aimed at the local market and strongly protected by tariffs. Around the 1980s, liberalisation policies also enabled the emergence of export-oriented apparel manufacturers. However, both sectors were barely integrated, as the temporary import regime at the time (exempting export-oriented imports from tariffs) allowed exporters to separate themselves almost entirely from the local market. Only in the late 1990s, after different conflicts and crises, did sector representatives start to work towards cross-sectional integration (Cammett, 2007). This background may to a certain extent explain why value added is not higher; however, to fully take into account recent developments and the current structure of the sector a more extensive assessment would be necessary.

Figure 9: Output in the textile and leather sector (by sub-sectors) and the sector's value added



Source: Based on data from UNIDO, 2017a

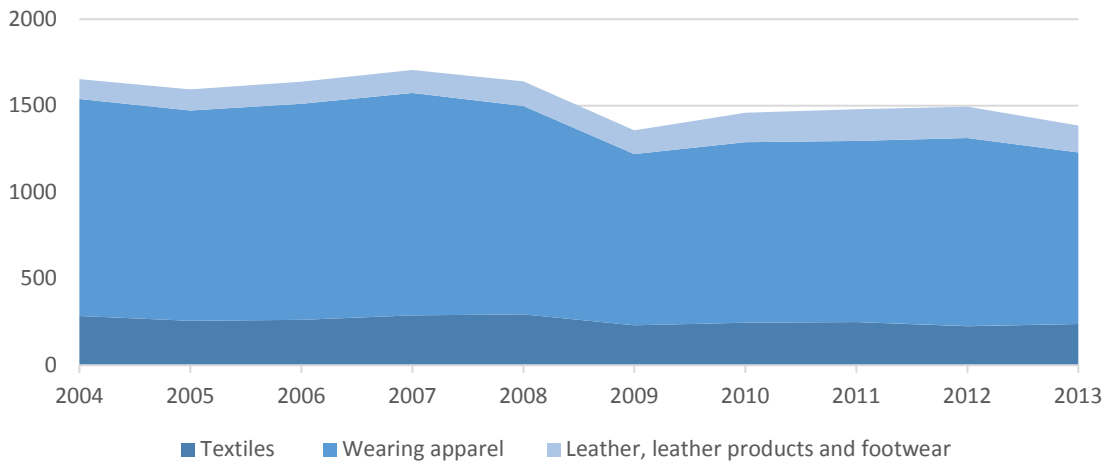
In contrast to the strong growth that could be observed in the mechanics, metallurgy and electronics sectors, the textile and leather industry suffered a sharp decline in 2009 from which it was not able to recover until 2013. Despite the growth curve that started to materialise from 2005 onwards, the global financial crisis put an abrupt end to this trend and reduced production to pre-2005 levels. Another factor that put major pressure on the industry was the abolishment of the Multifibre Arrangement (MFA) in 2005.[42] Similar to those in other countries, Moroccan companies struggled with increased competition as a

42 The Multifibre Arrangement of 1974 allowed countries to establish import quotas on textile products to protect their domestic industries from increasing international competition. As these provisions contradicted general GATT (General Agreement on Tariffs and Trade) rules, they were gradually reduced during a 10-year period from 1995 onwards under the Agreement on Textiles and Clothing, and eventually completely abolished in 2005 (WTO, n. d.-b).

number of buyers moved their production towards Asia.[43] The sectoral recession also strained local companies and forced many of them to give up their businesses, leading to a reduction of establishments from about 1,900 in 2005 to 1,370 in 2013 (UNIDO, 2017a), which was most pronounced in the apparel sector. Equivalently, the share of value added also decreased by approximately four percentage points in that period.

This downward trend can be linked back to a drop in exports from 71 per cent in total production in 2004 to 63 per cent in 2013, driven mainly by the apparel sector (DEPF, n. d.). Figure 10 illustrates the development of exports from 2004 to 2013. As we discuss in the next section, this sub-sector is strongly dependent on international contractors and changes on the world market. Therefore, the events described above, especially the end of the MFA, were able to have such a strong impact on the industry with the result that the decline in apparel influenced the performance of the industry as a whole.

Figure 10: Exports in the textile, apparel and leather sector in million EUR based on ISIC codes 17-19

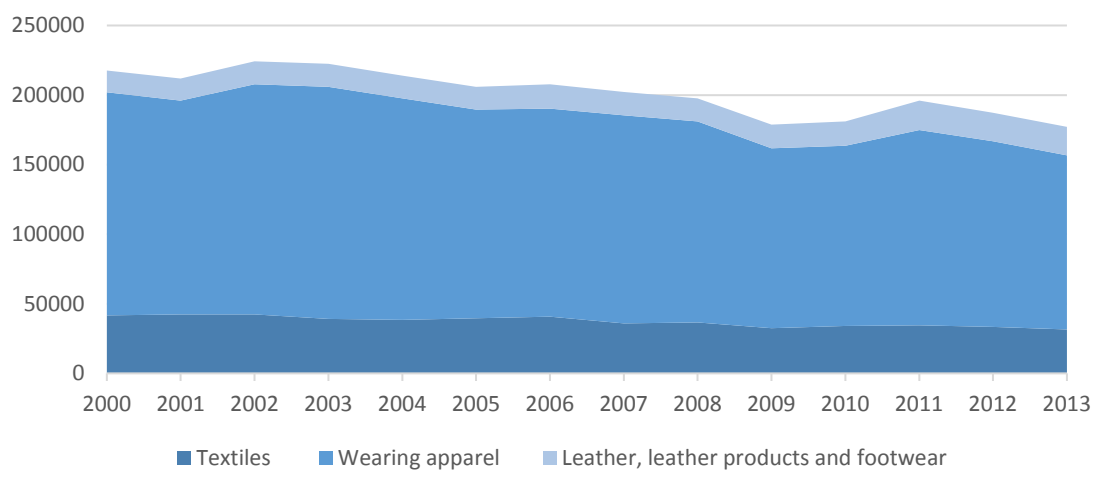


Source: Based on data from DEPF, n. d.

While the share of output in the textile and leather sector does not play a significant role in total manufacturing production – it only amounts to about a quarter of the production generated by the mechanics, metallurgy, and electronics sector – the sector is the largest employer (28 per cent of total manufacturing employment in 2015) (HCP, 2017b). Hence, the closure of many companies and the strains that were put on the remaining ones also led to sharp drops in the number of employees, especially in the apparel and leather sectors. The total number of employees declined from nearly 206,000 in 2005 to 177,000 in 2013 (UNIDO, 2017a) (see Figure 11). This decline was much stronger than the average estimated by the International Labour Organization (ILO) at the end of the MFA, of between 1 and 2.5 per cent by 2018 (ILO, 2005).

43 Interview 32.

Figure 11: Employment in the textile, apparel, and leather sector (based on ISIC codes 17-19)



Source: Based on data from UNIDO, 2017a

Across the industrial sector, this implies that the employment created in the metal, mechanics, and electronics sectors of about 69,600 jobs was offset by about 41.5 per cent through the loss of nearly 30,000 jobs in the textile and leather industry (ILO, 2005). Put differently, if the overall target of employment creation in the manufacturing sector as set in the industrial policy plan was not achieved, this did not simply happen because sectors in general grew less than expected, but because certain sub-sectors actually suffered from high job losses and had difficulties in recovering and becoming globally competitive. However, this development also showed a structural transformation from the textile towards the automotive and electronics sectors, which provided higher potentials for knowledge spillovers and thus also offer a greater future potential.

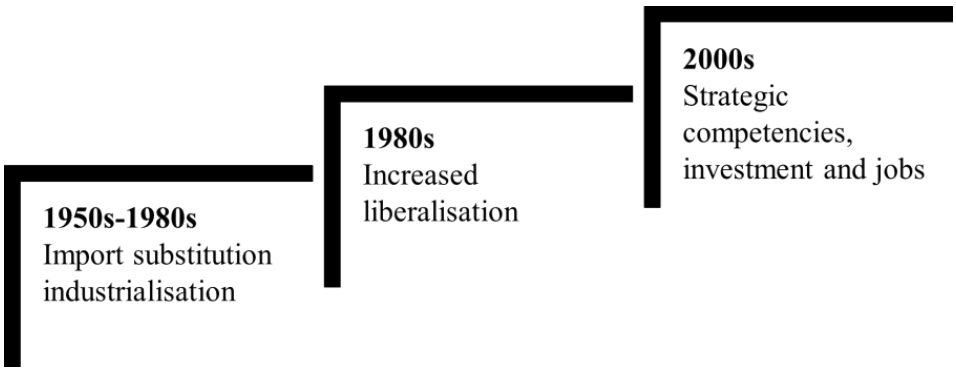
More recent statistics from the Ministry of Industry for the past three years (2015-2017) indicate that overall growth in the industrial sector has lately outweighed losses in individual sub-sectors. According to those figures, the sector has experienced a net creation of 3,738 (2015), 32,962 (2016) and 46,036 (2017) jobs. Again, the automotive sector showed the strongest growth with a maximum of 39,554 jobs that were created in 2017 (gross value), while the textile sector fluctuated between nearly 8,000 and 9,407 jobs (gross value) (Elalamy, 2018).[44] However, the comparison of gross and net values, even in this limited context, makes clear that a significant loss of existing jobs has taken place in parallel to the creation of new ones.

44 As explained in the previous section, these numbers can only be compared to the previous analysis to a limited extent as they have been calculated on a different statistical basis.

5 Evolution of industrial policy in Morocco

Morocco has seen fundamental changes in its economic policy since the end of the Second World War and, more precisely, since it gained independence from France in 1956. As such, the industrial policy – the framework supporting and accompanying the development of these sectors – has also evolved in various ways over the last decades. Most significantly, it evolved from following the paradigm of import substitution industrialisation (ISI) in the early years to increased liberalisation from the 1980s onwards, and lastly to a policy focusing on strategic competencies, investment and job creation as of 2000 (as illustrated in Figure 12). In this section we aim to trace these changes that took place over the last decades. We first highlight the main characteristics of the industrial policy paradigms that were followed until the early 2000s and their impact on our focus sectors. We then turn our attention to the following time period, which defined a new approach to industrial policy in Morocco, especially after 2005. The second part of this section thus focuses on these recent policy plans, elaborating on their objectives and measures and showing how they evolved by building on previous experiences.

Figure 12: Evolution of industrial policy in Morocco



Source: Authors

5.1 Industrial policy until the early 2000s

The paradigm of import substitution industrialisation (ISI) from the 1950s until the 1970s

From the 1950s and 1960s onwards, following the example of Turkey, import substitution industrialisation became the prevalent paradigm of economic policy in Morocco. The rationale behind this approach was to trigger the industrialisation processes through protectionist measures for the manufacturing sector (Hahn & Vidican Auktor, 2017). The ISI strategy, however, led to macroeconomic imbalances and inefficiencies, which then forced a policy change towards liberalisation and private sector development from the 1980s onwards.

The development of several sectors can be traced back to these early years of independence. During this period, the Moroccan textile, apparel, and leather sector entered its strong growth trajectory, which would turn it into one of the most important industrial sectors until the end of the century. During the French protectorate, some 150 local and international firms had already been established, mainly under the lead of French investors

but, with independence and the French departure, also the development of the sector changed. First, the Moroccan state, seeking to foster industrial development, invested in the sector by taking the lead in launching textile factories. Second, private investors took over some of the French factories or launched their own businesses. These industrialists came mainly from urban commercial families which already had extensive experience in the textile trade and sufficient capital to take over existing companies (Cammett, 2007).

Although less developed, the Moroccan automotive sector also dates back to as early as 1959. In this year, SOMACA (*Société Marocaine de Construction Automobile*) was founded in Casablanca with the purpose of assembling complete vehicles for the local market. SOMACA received technical assistance from the Italian manufacturers Fiat and Simca, which each had a 20 per cent stake in the company's shares (Hahn & Vidican Auktor, 2017). Other shareholders were the state of Morocco (38 per cent), the French manufacturer Renault (8 per cent) and Moroccan private investors (14 per cent) (DEPF, 2015).

The implementation of trade protection measures began at the end of the 1950s. Subsequently, duties and tariffs were increased throughout the 1960s and further consolidated through import licenses, duties and the overvaluation of the Moroccan Dirham in the 1970s (Cammett, 2007). The probably most significant measure adopted at the time was the "Moroccanisation Decree" (Haddad & Harrison, 1993, p. 54), which was passed in 1973 and which severely limited the freedom of foreign investors. It restricted foreign ownership of firms in certain areas of the industrial, commercial and service sectors to a maximum of 49 per cent (Hahn & Vidican Auktor, 2017).

At the beginning, this strategy enabled high growth rates and significant gains in socio-economic indicators to be made (Hahn & Vidican Auktor, 2017). This impact also pertained to the textile industry, which strongly benefitted from protectionist measures. As a result, the industry grew considerably, especially a number of firms within it,[45] and further diversified into areas, such as clothing and knitwear. Especially the 1970s spurred extensive growth, as duties reaching up to 300 per cent prevented any imports of cloth and thread. Local investors also benefitted from the Moroccanisation policy, which allowed them to increase their stakes in existing businesses. This development also had another effect, however: the high collateral that was required to obtain a bank loan for such an investment basically made it only possible for the business elites to engage in such transactions. This further reinforced their dominant role in the sector and, thus, also their influence on policy-making. Similar patterns were observed in the food processing industry, which was another focus sector of elite investments (Cammett, 2007). Also, in the automotive industry, 1975 marked a record, with the peak of production by SOMACA at slightly more than 25,000 vehicles (DEPF, 2015).

A set of factors such as the overly high rate of protection, the resulting market inefficiency and lack of competitiveness of state-owned companies (along with high level of imports and increased public spending) eventually caused financial imbalances in the form of a twin deficit (Cammett et al,. 2015; Hahn & Vidican Auktor, 2017). This could be observed throughout the MENA region. In Morocco, high public expenditures were

45 In the 1960s, about 60 factories were able to cover 50 per cent of the local demand in the areas of spinning, weaving, and cloth finishing (Cammett, 2007).

mainly financed by revenues from phosphate exports and foreign debt. This unsustainable finance structure led to two balance of payments crises shortly after each other: the first in 1978 and the second in 1983 (Currie & Harrison, 1997).

Increasing liberalisation from the 1980s onwards

As a result, Morocco was one of the first countries in the MENA region to abandon the ISI strategy by reducing public expenses and restructuring its debts with Western countries. It was also among the first to then focus on export and private sector promotion (Cammett et al., 2015; Hahn & Vidican Auktor, 2017). The first major economic reform in Morocco followed the crisis in 1983 focussing on investment and trade. The reform of the investment law lifted the ownership restrictions in some sectors, leading to their complete abolition by 1985, and provided incentives for foreign investors to enter the country. These incentives included the guarantee to repatriate profits, dividends, and capital, as well as a guarantee against expropriation and nationalisation. Changes in the area of trade led to the gradual reduction of the so-called Special Import Tariff (SIT) (Hahn & Vidican Auktor, 2017), described as a uniform tariff levied on the cost, insurance, freight and value of imports (Currie & Harrison, 1997) and a reduction of the maximum customs duty that was gradually lowered from 400 per cent to a maximum of 45 per cent (ibid.). Quantitative trade restrictions were gradually lifted as well. Many, although not all, goods that needed authorisation before they could be imported were freed from that requirement and the complete list of prohibited import products was revoked in 1986. Despite these improvements, the tariff system was still complicated and especially products at higher processing stages continued to be affected by restrictions (Currie & Harrison, 1997; Haddad & Harrison, 1993; Hahn & Vidican Auktor, 2017).

In the textile sector, which had for a long time been dominated by elites catering to the local market, liberalisation led to the emergence of a second strand of businesses (Cammett, 2007). Already in the 1970s, a few apparel companies had established subcontracting agreements with European firms that wanted to profit from low labour costs. The liberalisation policies that followed in the 1980s coincided with an increasing internationalisation of value chains, a process during which European manufacturers relocated their production activities to low-cost sites. These two developments led to an increasing number of concluded subcontracting arrangements and enabled the creation of a large number of new apparel assembly firms in Morocco. From 1986 to 1997 their number increased from 264 to 738 registered companies (Cammett, 2007).

Contrasting with this development, automotive production in Morocco experienced a sharp downturn from the mid-1970s onwards, which resulted in the production of only 8,482 vehicles in 1995 – an all-time low. In 1995, a new agreement between Morocco and Fiat finally marked the turning point: it envisioned and implemented the expansion and further development of the Moroccan automotive sector through the production of an inexpensive model destined for the local market (DEPF, 2015; Hahn & Vidican Auktor, 2017).

Throughout the 1990s, the Moroccan government continued its liberalisation and export promotion policy,[46] which included a reduction of trade barriers and quota coverage (which decreased from 66 per cent to 15 per cent of imports) and export taxes (Achy, 2013). These developments prompted exporters to increasingly organise within already existing associations, especially in the textile and apparel industry. At this time, the Moroccan association of the textile and apparel industry (*Association Marocaine des Industries du Textile et de l'Habillement,* AMITH), became more diversified and developed from serving the interests of a small group into becoming an active, representative and influential association. At the same time, the developments of the previous decades had created two groups within the sector: textile manufacturers, which mainly represented old elites that had long been integrated in informal networks, and apparel exporters, who represented a new class of businessmen that mainly emerged from upper-middle class families. As the former were focused on the local market and had strongly profited from protectionism, while the latter were export oriented and thus favoured liberalisation policies, their interests diverged strongly and led to disputes within the industry.[47] Nevertheless, AMITH worked out a strategy for the development of the sector, which it presented to government officials in 1999 (Cammett, 2007). The proposal was taken up by officials and, although the implementation of different demands required further lobbying efforts by the industry association, it showed a development toward cooperation between public and private stakeholders. Also, AMITH increasingly used different channels (most notably also resorting to the media to exert pressure) as well as formalised relationships (such as regular meetings with the customs authority) to communicate its demands (ibid.). Although this did not lead to the disappearance of patronage politics, it gradually established a new form of state-business relationship and offered another way for companies within the sector to have their interests represented. This outcome reflects well Pritchett et al.'s (2018) concept of "rent spaces" that explains how the extent of openness of "deals" to all firms and that whether the commitments are or are not honoured by state officials, affects possibilities for developmental outcomes. Following this framework, the outcomes described above suggest the emergence of economic competition with positive feedback loops on sector-level growth.

Private sector development and investment promotion in the early 2000s

Among the first important measures to herald the Moroccan government's new approach to industrial policy was the establishment of the Hassan II Fund for Economic and Social Development in 2002. Its purpose was to financially support a variety of projects, among them in particular employment promotion projects along with investments contributing to this objective (Royaume du Maroc, 2002). Additionally, 2002 saw the creation of the National Agency for the Promotion of Small and Medium Enterprises (*Agence Nationale pour la Promotion des Petites et Moyennes Entreprises*) or now *Maroc PME,* which has

46 As pointed out by Amirah El-Haddad, the term "private" is relative in the Moroccan context, as many (especially large) companies belong to the King and his family and benefit from subsidies and other public support meant to benefit the private sector (Hahn & Vidican Auktor, 2017).

47 See Cammett (2007) for a detailed discussion of diverging interests and disputes within the apparel and textile industry.

been operative since 2004. Cooperating with the European Commission in the beginning, the objective of this agency was to support SMEs both technically and financially.[48]

In these years, the rapid rise of the Moroccan automotive industry also began with Renault becoming the majority shareholder of SOMACA and sole manufacturer in the market in 2005. The first vehicles exported to the French market left the country in 2007, and in 2009 export markets included not only European countries, but also Egypt and Tunisia, with an increased annual production of more than 90,000. In 2007, an agreement was concluded between Morocco and the Renault-Nissan Group, which led to a vast expansion of the company's engagement in the country. It contained the creation of an environmentally friendly production site in Tangiers costing more than EUR 600 million – the largest project of the automotive industry south of the Mediterranean (DEPF, 2015; Hahn & Vidican Auktor, 2017).

5.2 Industrial policy after 2005

A new era for industrial policy-making eventually occurred with the launch of the *Plan Émergence* in 2005, which provided a framework for a new industrial policy until 2015. The concept of this plan was reviewed and refined in 2008 and then formalised as the National Pact for Industrial Development (*Pacte National pour l'Émergence Industrielle,* PNEI). As will be shown in the following analysis, this new industrial policy identified clear target sectors and started to introduce an institutionalised integration of private actors in the implementation of policy measures. The Plan for Industrial Acceleration (*Plan d'Accélération Industrielle,* PAI), which is the PNEI's successor from 2014 to 2020, continues and refines this approach.

The objectives of the PNEI are illustrated in Table 1. From an economic perspective, Morocco's industrial policy aimed at increasing the industrial sector's contribution to GDP, exports, and investment. From a social perspective, the main policy goal was the creation of additional employment opportunities to counteract the high number of unemployed people, especially among the young population. Among the targets was the creation of 220,000 new jobs in the industrial sector as well as substantial increases in industrial GDP, exports and private investment. The strategy aims at attaining these goals through a number of policy measures, which we discuss below, and which are summarised in Figure 13.

The PNEI provides a clear structure of key sectors that are considered strategic by Moroccan policy-makers and are therefore deliberately supported in their further development. Within the policy framework, these key sectors are referred to as "Global Professions of Morocco" (*Métiers Mondiaux du Maroc*) (Royaume du Maroc, 2008, p. 16). Six key sectors were identified for the PNEI and include offshoring,[49] automotive, aeronautics, electronics, textile and leather, and food processing. For each of the sectors, specific goals are set, which contribute to the overall objectives of the PNEI as illustrated

48 Interview 19.

49 Although offshoring is not a sector in economics, it is treated as one in the framework of Moroccan industrial policy and includes business, IT (information technology) or customer service activities that are being outsourced to Morocco.

in Table 1. The key sectors can be further separated into two groups, as the implemented support measures also differ accordingly: the first four sectors are mainly oriented towards foreign direct investment (FDI), while the latter two represent traditional Moroccan sectors with a strong base of local companies.

Table 1: PNEI's objectives

Target area	**Objective**
Job creation	220,000 new jobs
GDP	EUR 4.5 billion (MAD 50 billion) additional industrial GDP
Export	EUR 8.5 billion (MAD 95 billion) additional exports
Investment	EUR 4.5 billion (MAD 50 billion) private investment
Target sectors	
Offshoring	70,000 jobs, EUR 1.2 billion (MAD 13 billion) additional industrial GDP
Automotive	70,000 jobs, EUR 1.1 billion (MAD 12 billion) additional industrial GDP
Aeronautics	15,000 jobs, EUR 358.3 million (MAD 4 billion) additional industrial GDP
Electronics	9,000 jobs, EUR 223.9 million (MAD 2.5 billion) additional industrial GDP
Textile and Leather	32,000 jobs, EUR 89.6 million (MAD 1 billion) additional industrial GDP
Food processing	24,000 jobs, EUR 895.8 million (MAD 10 billion) additional industrial GDP

Note: MAD = Moroccan Dirham
Source: Royaume du Maroc, 2008

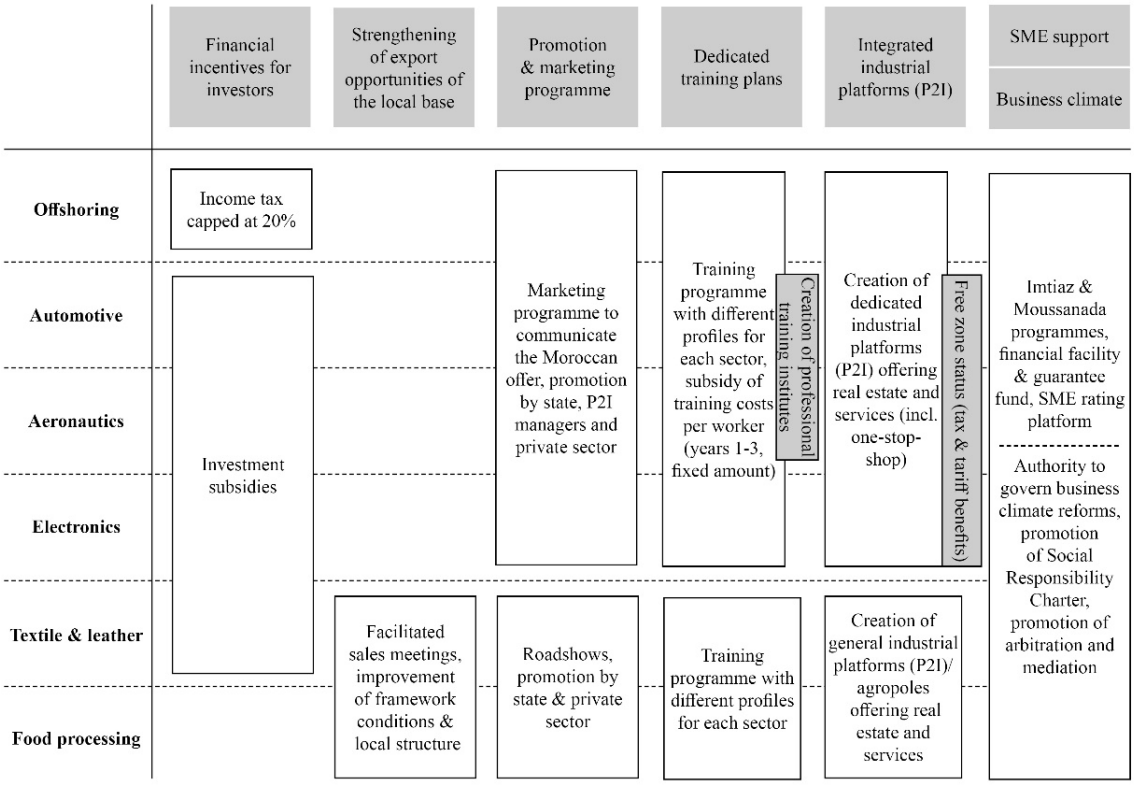
By choosing these key sectors, Morocco has established a clear vision of which sectors are seen as drivers of current and future industrial development. While the textile and leather sector has a longstanding history in the country and employs a significant number of people, other sectors have been less obvious candidates. The automotive industry, which is most prominently placed in the strategy and currently drives the results of the policy, has long been present, but has been rather unsuccessful and was in a deep crisis until the mid-1990s. However, using existing knowledge and experience to foster its development represents a model case of strengthening existing competitive advantages. In contrast, the aeronautics sector is a new sector, as there was basically no economic foundation to this sector in the country until the early 2000s.[50] It can thus be considered a case of "tapping into the potential advantages of backwardness" as described in Section 2. Finally, the electronics sector, which encompasses integrated and specialised electronics products, is closely connected to the previous two sectors and a means to fostering their deeper integration into the local economy by creating upstream value.

The following sub-section discusses the different measures introduced in the PNEI and illustrated in Figure 13. It will show the different measures targeted at the six key sectors

50 The Moroccan aeronautics sector has built on the presence of manufacturers (EADS, Safran Group) and their respective suppliers (around 100 companies in 2012). As a result, those companies are either subsidiaries of international (mostly French) companies or Joint Ventures, while their production is solely aimed at exporting. The dominant sub-sectors are metalworking, services and electronic components (DEPF, 2012).

and the differences within these sectors as well as more generally oriented or horizontal measures that provide benefits to the industrial sector as a whole.

Figure 13: Schematic illustration of the PNEI



Source: Authors

Targeted measures

The strategy for the sectors offshoring, automotive, aeronautics and electronics strongly focuses on attracting international companies to settle in Morocco and contribute to the further development of the respective sector. As such, the measures that are foreseen in the PNEI centre strongly around financial incentives, that is, tax reductions and subsidies. These are complemented by targeted marketing programmes to promote Morocco abroad as well as an offer of targeted training programmes and the establishment of integrated industrial platforms (*Plateformes Industrielles Intégrées,* P2I). The latter two measures are part of horizontal initiatives and will therefore be discussed in more detail in the next section.

Financial incentives are most distinct in the automotive sector where the PNEI targets three different kinds of companies: suppliers, manufacturers, and specialised manufacturers (such as of trucks and buses). For manufacturers, an incentive framework is offered together with the provision of approximately 300 hectares (ha) of land for production facilities and high-level logistics. Both are not further specified in official documents, suggesting that for manufacturers the details of incentives and framework contracts are negotiated individually. For suppliers and specialised manufacturers (or in any of the other sectors), this is not the case as they receive a subsidy of up to 10 per cent of the investment amount. In the aeronautics and electronics sector, companies are supported with an equal amount, but in

their cases no distinction is made between different kinds of companies. For offshoring, such subsidies are not foreseen, but rather the income tax is capped at 20 per cent (Royaume du Maroc, 2008). Further benefits in the form of reduced taxes are available to the companies of these sectors if they are established within one of the free zones, which will be discussed within the framework of the P2I.

For the two traditional sectors that are included in the PNEI – textile and leather and food processing – a stronger integration in the global economy and global value chains (GVC) is also targeted. The strategy, however, varies as this is not meant to be mainly achieved through FDI, but through subcontracting and international sales opportunities. Accordingly, measures in these sectors mainly focus on marketing and promotion abroad, SMEs' competitiveness, and improving framework conditions, although they nevertheless also include incentives for investors.

In addition to specific measures targeting the six key sectors, the PNEI includes four horizontal measures that are meant to improve framework conditions across sectors. In particular, the measures for training and education as well as the integrated industrial platform provide substantial benefits to companies pertaining to key sectors.

Training and education

This measure aims at providing an adequately qualified pool of human resources through a customised training curriculum, dedicated public and private institutions to carry out the training, and financial support. Training programmes are customised by sector and profession (for instance, managers, engineers, technicians, operators) reflecting their respective requirements. In addition, training institutes are created to specifically respond to the needs of companies in certain sectors, namely the automotive sector (four institutes) and the aeronautics sector (one institute), owned and financed by the state but managed by a private company or an industry association (Royaume du Maroc, 2008).

These dedicated training plans and facilities are complemented by financial support measures. For the first three years of employment, training costs are reimbursed up to a fixed amount depending on employee, profile and sector. These subsidies can for example reach up to EUR 3,000 in the automotive industry (Hahn & Vidican Auktor, 2017). A strategic committee, a technical committee and sectoral working groups consisting of government as well as private sector representatives[51] were established to coordinate, organise and develop the various different training activities and measures.

With regard to research and development, it has to be noted, though, that activities within the investment-intensive key sectors, such as the automotive sector, are often labour-intensive and only include research and development to a very limited extent. This creates employment, but jobs for people with a higher education degree, among which unemployment is very high, still remain scarce.

51 Actors pertaining to these committees are discussed in more detail in Section 6.

Integrated industrial platforms

Integrated industrial platforms (P2I) are meant to provide dedicated industrial areas with a comprehensive real estate and services offer to companies of specific sectors. The platforms are to be managed by a platform manager and are to specifically ease the arrival of investors. As such, one-stop-shop services are offered on location so that multiple processes can be completed with ease (for example, information, construction permits, creating a company). Furthermore, public transport ensures connection to nearby cities.

A network of 16 P2Is is planned to be created. Of these, nine are dedicated to the target sectors of the PNEI, five are supposed be cross-cutting, and two will have a regional focus (for instance, for Spanish companies). The largest number of industrial platforms will be attributed to offshoring (six platforms), although, with a total size of 80 ha they are significantly smaller than the other three. Two platforms are dedicated to the automotive industry (300 ha each) and one for the aeronautics sector (150 ha), each also including a district for the electronics sector.

A particularity of the P2I for the automotive and the aeronautics sectors (and in the meantime also of three offshoring P2I) is that they will additionally benefit from the status of a free trade zone. This allows companies that are established under this status (a requirement being that 70 per cent of turnover must be realised through exports) to benefit from further financial and administrative benefits (Royaume du Maroc, 2008; MCINET, n. d.-b):

- **Financial incentives include:** full income tax exemption for the first five years, followed by an 80 per cent rebate for the next 20 years; total exemption from profit tax for the first five years, followed by a rate of 8.75 per cent for the next 20 years; full exemption from real estate tax (at municipal level)[52] for 15 years;
- **Customs benefits:** full exemption from import duties and simplified customs procedures; unlimited exemption from value added tax for goods delivered and services rendered to free zones from the taxable territory (that is, from Morocco);
- **Administrative benefits:** exemption from the registration and stamp duties on acts of incorporation or increase of the capital of the company, as well as on the acquisition of land.

While dedicated training plans and training institutes are a measure to improve qualifications among the workforce and increase employability, the P2I are aimed at providing a better offer to companies with regard to infrastructure and real estate. However, also in this respect, attracting multinational companies (MNCs) to settle in Morocco has been more strongly fostered than the local economic base by the creation of P2I with free zones, and by the establishment of new training facilities in these sectors. To also benefit from free zones and training subsidies, local companies would have to invest in new facilities in the respective locations and hire new employees, however, it seems unlikely that many SMEs have the necessary capacities – even if they did, such an investment would require them to have a solid growth perspective within the GVC. As shown by Hahn and Vidican Auktor (2017), this has led to a situation in the automotive

52 This tax (*la taxe professionnelle*) is collected at municipal/communal level, applied on the real estate or (rental value) where the commercial activity takes place (see https://portail.tax.gov.ma/wps/portal/DGI/Vos-impots-procedures/Taxe-professionnelle).

sector where only a few local companies are able to participate in and benefit from the positive development of the sector. Local SMEs could still benefit from horizontal measures though, as the PNEI included measures related to general improvements in training, SMEs competitiveness and the business climate, as described below.

SMEs' competitiveness

Especially for the traditional sectors, which are made up primarily of local SMEs, supporting these companies in their development and improving their competitiveness via-à-vis international competition and standards is of crucial importance. To do so, the PNEI has introduced two support programmes accessible for all sectors. Firstly, the Imtiaz programme aims at supporting SMEs financially, through subsidies of 20 per cent of total investments (capped at EUR 447.876[53]). The goal of this programme is to support 50 companies that are to be selected through a national competition. Secondly, the Moussanada programme provides practical training in areas such as IT, quality or marketing.

Also considered are measures to improve administrative procedures for SMEs. Lastly, entrepreneurship is fostered through education programmes, such as an annual "entre-preneurship day" at universities, curricula on SME management at business schools, office space, and funding for start-ups (Royaume du Maroc, 2008).

Box 1: Industrial clusters

Since 2010, the Ministry of Industry has been fostering innovation through the creation and support of industry clusters in different sectors. This initiative complements the industrial policy plans, but has not been mentioned in any of the publicly available communications relating to them. To stimulate active engagement in innovation and to support the emergence of innovative collaboration projects, the Ministry of Industry financially supports the creation of clusters and accompanies them during the first five years of their existence. So far, eleven clusters are operational of which four are in the textile sector and one is in the electronics, mechatronics and mechanics sector. While the former ones have only been created recently,[54] the latter is an interesting case as it goes back to a private sector initiative that started in the early 2000s.

At that time, a group of suppliers in the industry realised that international firms sourcing abroad were generally not interested in having multiple contracts for the production of different parts of a product, but were rather looking for one single point of contact.

> The subcontractors that worked for the major contractors, we noticed that the major contractors that we met during major trade shows – many of them in France and Spain - they do not seek subcontractors who intervene punctually. For example, if you want to produce something, the contractor is not going to ask whoever produces the shell to do that, he is going to ask, for example, the one who produces the screen to do it - they are looking for people who offer what is called a comprehensive service. People who work in a network and who produce a complete product. They are also looking for people who engage in design, conceptualisation, they are looking for real partners, not punctual stakeholders. (Interview 23)

Based on this approach, the companies working together were able to jointly gain contracts with MNCs from 2005 onwards based on their own initiative. After the government programme was launched in 2010, it took them only about one year to formally set up the electronics, mechatronics and mechanics cluster CE3M and start operating. Since then, the cluster has been growing constantly and has increased its number of member participating firms from 50 in 2014 to 66 in 2017. They have also realised multiple projects, especially in the renewable energy and electricity sectors and won a number of innovation prices (Interview 23).

53 Equivalent to MAD 5 million.

54 Interview 26.

Business climate

Apart from some minor administrative measures, support for improving business climate includes three main topics: firstly, quarterly evaluation and review of the performance of various business climate measures by a public-private committee. Secondly, corruption – still a major issue in the country – is to be reduced through promotion of the Social Responsibility Charter among companies, facilitation of administrative procedures companies adhering to it, provision of a point of contact for companies to report incidents in the field of public contracts and investments, and the dissemination of general knowledge on the implementation of clear and audible procedures within companies. Thirdly, arbitration and mediation are promoted as best practices of international business law. A public-private commission has been created to steer this process, while arbitration and mediation centres are strengthened and their use encouraged among actors of the private sector to increase their dissemination (Royaume du Maroc, 2008).

5.2.1 The Industrial Acceleration Plan

As the PNEI covered only the period from 2009 to 2015, its successor, PAI, extended the previous industrial policy to the period of 2014 to 2020.[55] Based on official figures, PAI aims at increasing the part of GDP generated by the manufacturing sector from 14 per cent to 23 per cent, creating 500,000 jobs and reducing the trade deficit (MCINET, n. d.-b). Although it is not as comprehensively formulated as the previous strategy, the PAI follows its predecessors' approach of defining key sectors and accompanies them with support measures. It also further develops the strategy in several aspects.[56]

Five of the six key sectors defined in the PNEI are kept within the framework of this new strategy. Only the sector of food processing is no longer pursued within the PAI, indicating continuity and a long-term vision for the remaining key sectors. These are complemented by six newly added key sectors: chemistry, pharmacy, construction, renewable energy, electrical, and metallurgy and metalworking (MCINET, n. d.-b). With this, the PAI effectively doubled the number of key sectors covering most of the country's industrial activities. While this is a positive development for the new sectors, as they now have the opportunity to benefit as well, it also means that vertical subsidies and interventions have become more generalist instruments rather than targeted interventions.

55 In contrast to the previous strategy, no encompassing formal document has been published; thus, information on concrete details had to be gathered from the various different institutions involved in its implementation.

56 Environmental aspects did not play a significant role in the PNEI as well as in the PAI. They are mentioned in the framework of the Industrial Development Fund, as companies that pursue a project that contributes to the recycling of natural resources and waste to create value-added are eligible for financial support (Invest in Morocco, n. d.-b). Apart from that, the inclusion of the renewable energy sector in the key sectors within the PAI supports its development and has the potential to contribute to energy objectives on the broader level. On its own initiative, Renault has contributed to green development in the automotive sector. Already before construction began, the manufacturer stated that the factory in Tangiers was supposed to become one of the cleanest automotive production plants worldwide. Today, the factory has the following at its disposal: a biomass heating plant, a water-recycling circle; and has been looking to complement its energy demand by further renewable energy input (Mansouri, 2017).

The following section will explain in more detail the measures of the PAI and how elements of the previous strategy were further developed within it.

Industrial ecosystems

The most notable measure of the PAI is the establishment of so-called "industrial ecosystems", which are sub-sectors with a perceived highly competitive potential to be further developed. These "ecosystems" have nothing to do with ecology per se: at the centre of an "ecosystem" are one or more lead firms (so-called "locomotives"), the objective being to strengthen the local industrial base by encouraging mutually beneficial partnerships with SMEs, identifying gaps in the supply chain and finding ways to close them. Targeted support is provided to ecosystem companies in the form of financing and access to land and training (MCINET, n. d.-b). Table 2 gives an exemplary overview of the ecosystems that have been established in the automotive and the textile industries.

Table 2: Ecosystems of the automotive and the textile sectors

Target sector/global profession	**Ecosystems**
Automotive	Wiring
	Interior & seats
	Metalworking & stamping
	Batteries
	Trucks & industrial bodywork
	Powertrain (motors & transmission)
	Ecosystem Renault
	Ecosystem PSA Peugeot-Citroen
Textile	Denim
	Fast Fashion
	Industrial distributors of national brands
	Stitching
	Home textiles
	Textiles for technical use

Source: MCINET, n. d.

The development of ecosystems is supported by the newly created Fund for Industrial Development (*Fonds de Développement Industriel*) that allocates about EUR 268.7 million[57] per year to them for the period of 2014 to 2020 (MCINET, n. d.-b). The fund subsidises the acquisition of land (up to 20 per cent), investments in infrastructure (up to 5 per cent), as well as vocational training (up to 20 per cent) for ecosystem companies of all key sectors based on eligibility criteria relating to investment, employment, and knowledge transfer. Depending on its classification, a company must invest between EUR

57 Equivalent to MAD 3 billion.

1.8 and 4.5 million[58] (or create between 50 and 200 jobs) to be able to benefit from the FDI (Invest in Morocco, n. d.-b).

Investment subsidies are thus a key element of the measures implemented in the industrial policy framework of the PNEI as well as the PAI. Overall, there are two major vehicles through which these are disbursed: the Industrial Development Fund as described above, on the one hand, and the Hassan II Fund, which has been active and integrated into industrial policy since 2002,[59] on the other hand. To be able to receive benefits within the framework of the Hassan II fund, a company must invest a minimum of EUR 895,752[60] (Invest in Morocco, n. d.-c). Smaller investments, which are not eligible for either of the two funds, can be supported through the Imtiaz programme (initiated by the PNEI) to support SMEs. These amounts show that, while traditional sectors and SME support are a part of the policy framework, investment-intensive sectors directed towards industry leaders and MNCs have clearly been the main target of these measures. Defined as companies with a total annual turnover of maximal EUR 6.7 million[61] and up to 199 employees, micro-enterprises and SMEs, which make up 89 per cent of the industrial sector,[62] will only in a few cases be able to benefit from support of the two major funds (HCP, 2017b).

Further measures of the PAI

In addition to the concept of ecosystems, the PAI implements a number of other measures to support the development of key sectors. A detailed overview of the different focus areas, objectives and policy measures that are part of PAI is presented in Hahn and Vidican Auktor (2017, p. 21).

The training programmes included in the PNEI are continued and financially supported with up to EUR 5,822[63] per person. The programmes for the industrial platforms P2I (and the respective free trade zones) are also continued. They are to be complemented by Integrated Industrial Rental Parks, which offer turnkey services (MCINET, n. d.-b).

Furthermore, the PAI offers an exemption from import duties as well as from the value-added tax for capital goods, equipment and tools necessary for the realisation of an investment project of more than EUR 17.9 million[64] for 36 months to all target sectors of the PAI. Investments in the automotive, the aeronautics, the electronics, the chemistry, and the pharmaceutical sectors can also still be supported up to 30 per cent (depending on the investment) by the Hassan II fund (MCINET, n. d.-b).

58 Equivalent to MAD 20 and 50 million.

59 The investment subsidies offered in the PNEI were realised through the Hassan II fund (Royaume du Maroc, 2008).

60 Equivalent to MAD 10 million.

61 Equivalent to MAD 75 million.

62 68 per cent only reach a maximum annual turnover of MAD 10 million.

63 Equivalent to MAD 65,000.

64 Equivalent to MAD 200 million.

Finally, the Imtiaz programme for SMEs is complemented by the Istitmar programme offering financial support to microenterprises (Attijariwafa Bank, 2016). To accompany informal microenterprises to graduate to a formal status, the government has also introduced the status of "self-employed",[65] which lets microentrepreneurs benefit from simplified administrative procedures and reduced taxes (MCINET, n. d.-a).

6 Changes in the making of industrial policy

Despite the lack of evidence for overall structural change and mixed results that were achieved in different key sectors from 2005 to 2013, the industrial policy that has been followed in Morocco since the *Plan Émergence* has been based on increased cooperation among different actors and has empowered the private sector. This section aims at shedding light on these dynamics, the actors of industrial policy and their changing relationships.

We argue that industrial policy has evolved over time and exhibits signs towards increasingly becoming embedded with the larger share of relevant stakeholders, a dimension we consider important for the emergence of a new social contract (see Section 2). Policy measures targeting industrial key sectors have seen a refinement from the PNEI to the PAI, which was manifested in the creation of ecosystems and industry locomotives that allow for much more targeted measures and attribute more responsibility to the private sector. The introduction of the performance contracts, together with the creation of public-private training institutions, also formalised and intensified the exchange with industry associations and their role in the implementation of policy measures along with the further development of their respective industries. However, although this has certainly been a step forward, cooperation does not yet include all relevant stakeholders and still has to become fully institutionalised. Particularly preventing political capture by large corporations will pose a challenge in the future, as they currently play a privileged role having a direct channel of communication with the ministry and notable influence on decision-making. Nevertheless, some hurdles still need to be addressed, especially with regard to achieving higher levels of inclusion (or embeddedness), systematic implementation, monitoring and evaluation; the last two aspects especially being key conditions for achieving autonomy in decision-making, as they contribute to strengthening accountability and learning. These remaining hurdles suggest that the emergence of the new social contract remains constrained by the need to address these challenges. We will discuss these aspects below, starting with an analysis of how industrial policy evolved over time, then showing how industrial policy-making has shifted towards higher levels of embeddedness, and lastly highlighting remaining hurdles, primarily related to satisfying criteria of autonomy.

65 *Auto-entrepreneur* in French.

6.1 Policy evolution: from key sectors to ecosystems

The Plan Emergence and the PNEI provided a vision and prioritisation for industrial policy by introducing key sectors into the strategy. At the time, the policy focused on these key sectors as a whole, but did not go further into detail on the sub-sectoral level. Designing the PNEI's successor, however, the Ministry of Industry decided to further develop the existing concept by adding measures of micro-targeting and designed the PAI with the concept of ecosystems at its core, as explained in the previous section. In contrast to the PNEI, investment subsidies in the PAI are related to these ecosystems rather than the sector in general, which is to enable them to be dispersed in a more targeted manner.[66] The idea was driven by the Ministry seeking to catch up in areas that had previously been neglected.[67] This particularly concerned the depth of the value chain in FDI-intensive sectors, in which MNCs had been attracted during the PNEI, but especially lower tiers (for example, second- and third-tier suppliers) were not yet well represented. Notably, it was indicated by some interviewees that the change of ministers, which took place in 2013 (Djama, 2014), set a major impulse for this change. The automotive sector was among the first to implement the concept of ecosystems. The advanced strategic planning of AMICA (*Association Marocaine pour l'Industrie et le Commerce de l'Automobile*) and the sector's readiness to respond when it was approached by the Ministry of Industry (on which we elaborate in the next section) were major factors that contributed to this leadership role.[68]

One main goal of creating ecosystems was to be able to upgrade domestic industrial activities and complement them with new sectors. The former aspect is based on the rationale that sectors, which depend heavily on the activities of MNCs such as the automotive industry, constantly carry the risk that lead firms might at one point decide to move to another country. However, the deeper their local embeddedness, namely the more activities and sourcing can be done locally, the higher will be the costs of moving to another location, thus, decreasing the likelihood of this event.[69]

> […] at one point, the labour [cost] will increase. And you can find countries where the labour cost is lower than in Morocco. If we are focusing just on labour cost, and not building an industry that is around, all the companies will start to go to other countries. With the ecosystems, if you bring all the suppliers […] to move is more complicated for them. (Interview 40)

An example of the implementation of this concept can be found in the wiring sector, which is one of the ecosystems of the automotive industry. After an analysis had shown that much of the material required had to be imported, efforts were made to attract a major producer of electronic connectors (and supplier of many MNCs in Morocco) to settle in the country and supply local companies.[70]

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66 Interview 16; 32.

67 Given that results are slow to materialise and that monitoring and evaluation tools are almost missing (as we discuss later), some critical analysts argue that this shift of focus to ecosystems is not of substance, but rather stays at conceptual level (see, for example, Mesbahi, 2017).

68 Interview 16; 33.

69 Interview 6; 40.

70 Interview 6; 11; 39.

In traditional sectors the ecosystems are supposed to also provide a means to modernise existing companies. This is, for example, the case in the ecosystem of industrial producers in the textile industry. Until today, apparel distribution in Morocco still mainly takes place in traditional, often informal structures rather than in modern stores and shops. The ecosystem, therefore, aims at modernising and formalising this structure by deliberately supporting projects that aim at creating production networks as well as introducing modern sales and marketing methods.[71]

> Today if we take the local market, […] we are in an essentially traditional distribution market, even informal. The modern stores, the modern distribution that you can see here represent 17 per cent or 15 per cent of the total distribution in Morocco. I'm talking about apparel […], home textiles, for example. So, the idea of this ecosystem is to modernise, formalise distribution in Morocco. We typically have today a project of an industrialist who develops his own network to be able to pull more customers into the modern network, to change some of the consumption habits. But historically, his main market […] is traditional. We also accompany these traditional distributors trying to introduce modern techniques of sales, of commercialisation, training. We accompany them for example in the organisation of points of sale; we put communication support at their disposal; we consult them to increase their sales so that they can promote their products, this kind of thing. (Interview 32)

Another particularity of the ecosystems is the existence of so-called "locomotives", which are major companies within the respective sub-sector that lead the ecosystem. Figure 14 illustrates how they fit into the overall structure. Any single ecosystem can have one or more locomotives, whereby a target number is specified in the performance contracts.[72] In addition to the strategic efforts by the Ministry of Industry and the associations, these locomotives are another means to develop upstream activities. This is achieved by the inclusion of certain obligations in a lead company's investment contract. These obligations include various benefits that the company commits to bring to the sector, such as for example a certain number of new employees, but also plans to develop and support local sourcing and knowledge transfer.[73] Apart from being an industry leader, the definition of "locomotive" has however not been exactly delineated and understanding varies slightly between the different key sectors. In the textile industry, for instance, locomotives are major companies that are accompanied by AMITH during the preparation and submission of their dossier to the ministries as described above. Smaller firms within the sector are, on the other hand, accompanied by Maroc PME within the framework of their SMEs support programmes.[74] In the automotive industry, especially large suppliers that are active in different subsectors, such as Delphi, are considered as locomotives. One objective in their case is to convince the respective company to relocate more or all its activities to Morocco. Due to their size, they have a considerable influence on the industry and upstream activities.[75]

71 Interview 32.

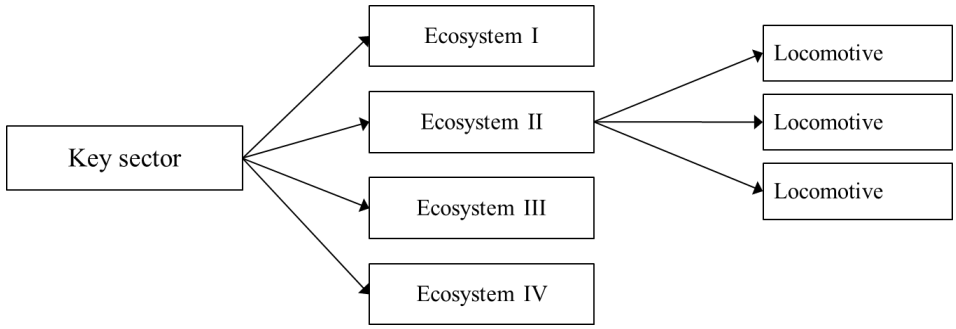
72 Interview 32.

73 Interview 6; 12; 32; 33.

74 Interview 32.

75 Interview 33.

Figure 14: Ecosystem structure



Source: Authors

6.2 Towards greater embeddedness

Based on experience from other forms of stakeholder dialogue (such as multi-stakeholder partnerships) two factors emerge as important for improved policy coordination (OECD, 2013, pp. 96-97): i) high-level leadership: leadership at the highest levels of government as well as the ministers charged with overseeing its activities can determine the success or failure of the strategy implementation process; and ii) a clear role and mandate: clarifying the role and function in relation to other existing bodies can avoid conflict or duplication of activities with other groups, which can render the mechanism inactive. We argue that governance has become increasingly embedded in recent years in the industrial policy-making process in Morocco, but that the involvement of an even broader set of stakeholders and improved coordination (also across strategies and plans on different levels) would allow for greater inter-agency coordination and more coherence of governmental actions and support schemes.

The main actor responsible for the design and implementation of industrial policy is the Ministry of Industry. Despite its central role and final decision-making power, the Ministry cooperates with a number of other governmental and private institutions in the policy development and implementation process. In recent years, cooperation with private actors in particular has deepened and led to a gradual change towards public-private cooperation as opposed to top-down decision-making.[76]

While overall policy design has been strongly dominated by public actors, in particular the Ministry of Industry and the Ministry of Economy and Finance, the increased role of the private sector is especially visible with regard to concrete measures at the sectoral level as well as to policy implementation. For the development of the *Plan Émergence*, an intergovernmental committee was established to work together with an international consulting firm[77] to elaborate the different pillars of the strategy.[78] The strategy's refined

76 Interview 6.

77 Various interviews and newspaper articles indicate that McKinsey was the main consulting firm contracted at the time (see, for instance, http://mobile.leconomiste.com/article/65279politique-industrielle-une-etude-de-trop).

and adjusted version, the PNEI, was then also majorly shaped by the joint work of nine ministries.[79] These were, however, complemented by two private sector institutions: the General Confederation of Moroccan Enterprises (CGEM)[80] and the Professional Association of Moroccan Banks (Royaume du Maroc, 2008). In the subsequent design process leading to the creation of the PAI, the concrete actors involved remain unclear; however, the concept of ecosystems seems to have been developed through the direct initiative of the Ministry of Industry.[81] Most notably, though, the details of the ecosystems at a sectoral level were developed in close cooperation with the private sector, as will be elaborated in more detail below.

In contrast to its design, policy implementation is shaped and influenced by different actors, as illustrated in Figure 15. Based on the focus of their activities, two constellations can be distinguished and these will be described in more detail below. Firstly, the cooperation between the Ministry of Industry, professional associations and companies, and public entities, such as Invest in Morocco, which mainly focuses on attracting investment, increasing sales opportunities and implementing marketing and promotion activities. Secondly, the Ministry of Industry and the private sector also work with different training institutions on strengthening human capital, training, and education. As we explain below when we discuss the two types of constellations in more detail, this distinction already shows the key role that the cooperation axis between the ministry and the professional associations/companies holds.

During the period of the PNEI, the Ministry of Industry already cooperated with the private sector, notably with its industry associations and key companies; however, this did not yet take place in a highly formalised or institutionalised way. During this period, emphasis was placed on establishing/signing investment contracts between the Ministry of Industry and large lead companies that benefitted most from investment subsidies provided within the framework of the PNEI.[82] Nevertheless, in their efforts to attract investment and sales opportunities the Ministry and the private sector were working towards the same goals. These efforts were further supported by three public institutions: Maroc PME, Invest in Morocco, and Maroc Export.

78 Interview 36; (see also http://www.leconomiste.com/article/politique-industrielle-le-plan-emergence-dans-les-starting-blocks).

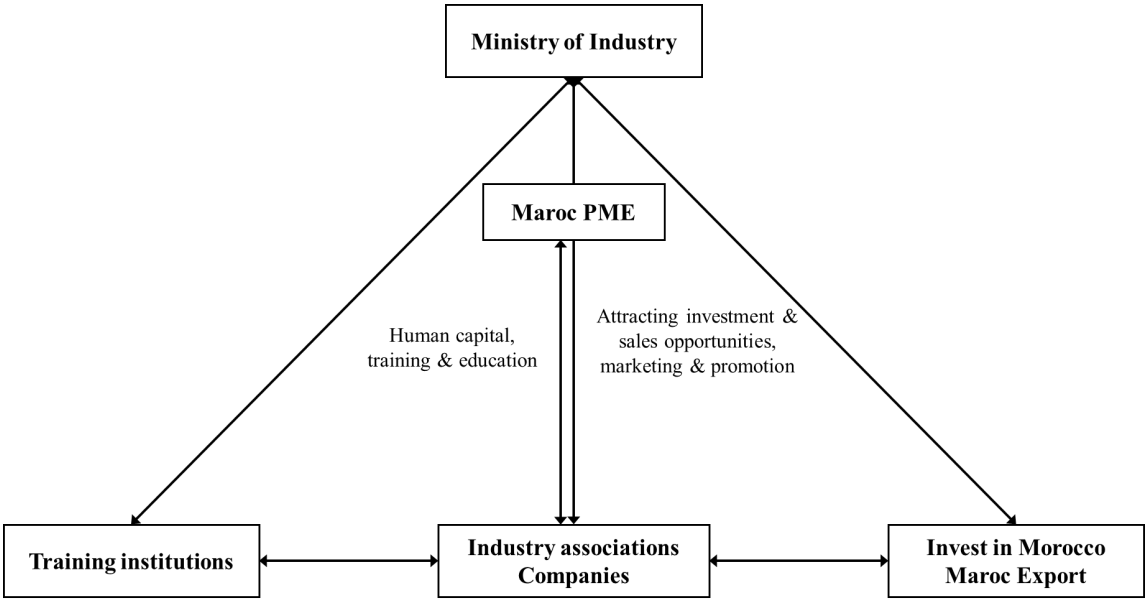
79 The Ministry of Justice; Ministry of the Interior; Ministry of Economy and Finance; Ministry of Agriculture and Fishery; Ministry of National Education, Higher Education, Management Training and Research; Ministry of Employment and Professional Training; Ministry of Trade and New Technologies; Ministry of External Trade; Ministry delegated by the Prime Minister for Economic and General Affairs.

80 The CGEM represents not only individual companies, but notably federates also 33 different sectoral associations, among them the ones of the electronics and the textile sectors (see also http://www.cgem.ma/fr/federations-sectorielles/1).

81 Interview 23; 29; 33; 36.

82 Interview 29; 32.

Figure 15: Constellation of main actors in Moroccan industrial policy[83]



Source: Authors

Maroc PME has been operational since 2004 when it began its first programme in cooperation with the European Commission (its operations were taken over by the Moroccan government in 2008). The institution's purpose is to support the development of Moroccan SMEs with a maximum turnover of EUR 17.9 million[84] before taxes. In the period from 2010 to 2014, technical assistance measures (such as for IT, management, and finance) were complemented by financial support for investment projects. In total, the programme aimed at distributing up to EUR 447,876[85] per year among 50 companies. At the end of the period, about 1,500 companies had benefitted from this set of measures. In 2015 the set of measures was further extended to also support investments in innovation (Hahn & Vidican Auktor, 2017). The programmes are funded by the Support Fund for Enterprise Competitiveness (*Fond d'Appui à la Compétitivité des Entreprises*) financed through the Industrial Development Fund (Hahn & Vidican Auktor, 2017).[86]

The Moroccan Investment Development Agency (*Agence Marocaine de Développement des Investissements, AMDI),* or as it is now called *Invest in Morocco,* is organisationally part of the Ministry of Industry and was founded to complement the resources of the department responsible for industrial development. Its main task is to attract international

83 At the time of conducting the interviews, Invest in Morocco and Maroc Export were separate entities as indicated in the figure. Since 2018, one finds that the two organisations together with the Office for Trade Fairs and Exhibitions have merged into a new entity, the Moroccan Agency for the Development of Investments and Exports (*Agence Marocaine de Développement des Investissements et des Exportations*, AMDIE) (see, for example, http://www.mcinet.gov.ma/fr/content/1er-conseil-d%E2%80%99administration-de-lagence-marocaine-de-d%C3%A9veloppement-des-investissements-et-0).

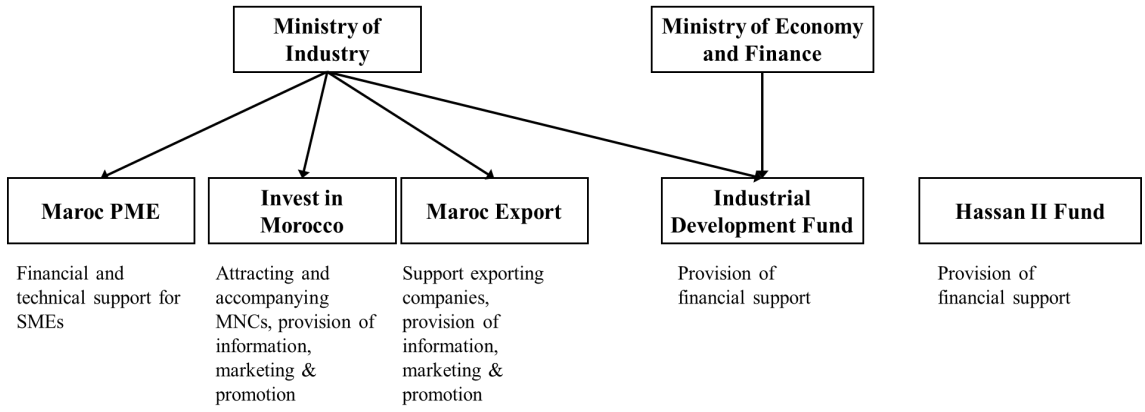
84 Equivalent to MAD 200 million.

85 Equivalent to MAD 5 million.

86 Interview 19.

companies, to serve as their point of contact, and to assist them if they want to settle in Morocco[87] (Hahn & Vidican Auktor, 2017). As such, it is one of the means through which the marketing and promotion activities mentioned in the PNEI are realised. *Maroc Export*, on the other hand, is an institution whose activities are centred around the support of exporting companies or companies that are interested in starting to export. Maroc Export engages in promotional activities, such as the organisation of the participation of Moroccan companies in exhibitions and business-to-business meetings, as well as in the provision of information on products, markets and opportunities.[88] As their tasks already suggest, the activities of both institutions address different types of companies and are thus distributed unevenly among the focus sectors of the PNEI (although no formal restrictions are in place). While Maroc Export is of special interest for sectors that have a strong local base, such as the textile sector,[89] Invest in Morocco especially addresses sectors that build on attracting FDI, such as the automotive industry. Figure 16 provides an overview of the different public actors and institutions in the industrial policy landscape and their roles.

Figure 16: Key public actors and their roles



Source: Authors

Due to the varying characteristics of the key sectors, the cooperation between the respective industry associations and the Ministry of Industry also developed in different ways. Particularly in the automotive industry (which leads with regard to key indicators as shown in the previous section), a strong involvement of the industry association and its relationship with the Ministry could be observed since the early 2000s.[90] The arrival of several MNCs in the supplier sector (for example, Valeo, Delphi, Antolin) and the growing success of the sector have led the association to grow accordingly and to take over an increasingly active role. An example described in Hahn and Vidican Auktor (2017) illustrates this outcome. From 2012 onwards, after the arrival of Renault and shortly before the Ministry of Industry started pursing the concept of ecosystems,[91]

87 Interview 7.

88 Interview 25.

89 In 2016, 20 per cent of the activities of Maroc Export were related to the textile sector; Interview 25.

90 Interview 11; 12.

91 Interview 33.

AMICA analysed the cost structures within the automotive sector independently from the Ministry of Industry to identify weaknesses that needed to be addressed to further develop the industry. Their results showed that five factors were the main cost drivers: (imported) raw materials, salaries, logistics, depreciation of production equipment, and consumables. Realising that around 80 per cent of the sourcing was based on imports, AMICAs main conclusion was that it was necessary to further develop the local supplier base with regard to components as well as raw materials.[92] Four commissions were subsequently created within the association to address the different areas that are related to this objective: i) development of the supplier base; ii) development of competences; iii) optimisation of logistic costs and delays; and iv) financing of investments for the automotive industry. Additionally, one more commission for strategy and monitoring was implemented. All members of these commissions were member companies of AMICA, led by one of these companies.[93] Input from the commissions also feeds into policy discussions with the Ministry of Industry. The positive influence of AMICA on the development of the sector has been explicitly mentioned and emphasised during interviews while the cooperation between the Ministry of Industry, Invest in Morocco, AMICA and the private sector has become institutionalised to an extent where it has also been referred to as "Team Maroc"[94] (Hahn & Vidican Auktor, 2017).

The development within the electronics sector took another path, which contrasted with the strong evolution that could be observed in the automotive industry. The National Federation of Electricity, Electronics and Renewable Energy (*Fédération Nationale de l'Électricité, de l'Électronique et des Énergies Renouvelables,* FENELEC) represents five sectoral associations, among them the Association of the Electronics Sector (*Association du Secteur de l'Électronique,* ASEL) and the Association of Solar and Wind Energy (*Association des Industries Solaires et Éoliennes,* AMISOLE). Not pertaining to the key sectors of the PNEI, it is no surprise that AMISOLE did not report to having had any special or intense relationship with the Ministry of Industry or to have been notably influenced by its policy at the time. However, also within the electronics sector, which is one of the key sectors, the PNEI was not reported to have led to significant changes.[95] Also, ASEL is significantly smaller with only around 55 members compared to over 100 in AMICA (FENELEC, 2017; AMICA [Association Marocaine pour l'Industrie et le Commerce de l'Automobile], 2016b). This phenomenon can at least partially be explained by the transversal nature of the electronics sector: in Morocco, many companies that are part of the electronics sector produce equipment for the automotive or the aeronautics sector. As they are mainly active in one of these other key sectors of industrial policy, they tend to interact with the respective industry association and benefit from policy measures in the respective sector.

> Since we are a transversal sector, we intervene in aeronautics, in automotive, in railway […] because we are transverse, electronics will intervene in each profession, in each of the ecosystems […]. (Interview 28)

92 Interview 16; 33.

93 Interview 11; 12; 16.

94 Interview 7; 16.

95 Interview 31; 36.

A prime example of this is the wiring sector, which is the largest supplier sector within the automotive industry in terms of exports as well as number of companies (DEPF, 2015; Office des Changes, 2016). Although it is technically part of the electronics sector, wiring is in many cases considered part of the automotive sector by the Ministry of Industry and AMICA.[96] This is best illustrated with an example: one of the major MNCs with multiple factories in Morocco, that produces electronic equipment as well as wiring products, is member of AMICA as well as of FENELEC. However, the company considers its wiring factories as pertaining to the automotive sector and only one site that produces electronic equipment for vehicles as pertaining to the electronics sector.[97] In statistics that are based on the self-reporting of companies, the main part of its business will thus be counted in the automotive sector. Nevertheless, representatives of FENELEC were aware of their position and work closely together with adjoined sectors, seeing their sector as an incubator for other sectors and professions.[98]

The cooperation between public and private stakeholders that emerged since the Plan Emergence could already be considered a step towards establishing a permanent channel of communication and thus an integrative approach to policy-making. However, it was also still rather informal and not yet institutionalised at the sectoral level. The PAI – and specifically the focus on ecosystems – strengthened these structures of public-private cooperation.

The most important characteristic of the ecosystems regarding their influence on actors and dynamics is, however, the key role that is given to the industry associations, which largely develop and subsequently manage them. The implementation of an ecosystem typically takes place in three steps[99]: i) Based on an agreement with the Ministry of Industry, the industry association cooperates with a consulting firm to identify the sub-sectors, which exhibit the strongest growth potential. They also define the objectives that they assume can be achieved in these sectors and the measures that would be necessary to do so; ii) Subsequently, the proposal is further discussed and evaluated with the Ministry of Industry and the Ministry of Finance and specific measures and objectives are agreed upon; then iii) It is finally formalised in the form of a performance contract (*contrat de performance*), which specifies the agreed objectives, the obligations of the association on the one hand, and the ones of the ministries, on the other hand, as well as arranging regular meetings to monitor progress. For example, in the textile sector, the objectives set for each ecosystem within the performance contracts include increase of turnover (export and local market), number of identified and accompanied investment projects and number of jobs created to be attained by the industry by 2025. The contribution of the ministry, on the other hand, consists of specified subsidy amounts for material and immaterial investments as well as for technical assistance.[100]

After the implementation of the ecosystem, it is the task of the association to support and improve the ecosystems and to monitor their progress. In the textile sector, for example,

96 Interview 6; 11; 12; 16; 33; 39.

97 Interview 40.

98 Interview 31.

99 Interview 22; 29; 32.

100 Interview 32.

AMITH deliberately tries to identify projects by approaching potential firms and investors and informing them about the opportunities that industrial policy offers them. If they are interested, AMITH also accompanies them in the preparation of the respective dossier to obtain project funding. The contract for these subsidies is then, however, concluded between the company and the Ministry of Industry. In the case of SMEs, investment support is provided within the framework of the programmes offered by Maroc PME and contracts concluded through them.[101] In order to be able to successfully take care of the new tasks and activities that are related to the implementation and management of the various ecosystems, the Ministry of Industry supports the creation of specialised departments within the associations (*Structure d'Animation*), which are already operational within AMITH as well as AMICA.[102] AMICA, for example, hired two senior consultants and four junior consultants who are each responsible for certain ecosystems and exclusively support their development.[103]

The form of governance that has been implemented through the ecosystems enables and institutionalises a continuous exchange between the public and the private sector, beyond the lead firms or the large state-owned enterprises (which, given the political economy context, have easier/direct access to policy-makers). At the same time, if tensions between their goals arise, the meetings preparing the performance contracts provide a means to discuss them and create opportunities for the government to avoid political capture. Additionally, regular meetings after the signature of the performance contracts, which are also specified within them, provide a direct channel for both parties to raise issues and develop solutions if necessary. They can thus serve as a means of continuous evaluation and readjustment, if conducted appropriately. Therefore, in contrast to the situation during the PNEI, the new mechanisms and dynamics that were implemented within the framework of the PAI can be considered a noticeable step forward towards a continuous channel of communication and coordination.

As mentioned above, quality of education is among the main issues in Morocco and thus a core focus area for both the PNEI and PAI. Over time the incentive structures for companies to actively engage in training their employees, the training platforms, and the dynamics between public and private training organisations have changed. Although challenges remain, an intensification of cooperation can also be observed here as well as new forms of cooperation.

Vocational training in Morocco is provided by the Office for Professional Formation and Employment Promotion (*Office de la Formation Professionnelle et de la Promotion du Travail,* OFPPT), which is a public entity. The OFPPT offers different kinds of trainings ranging from simple to advanced skills for different sectors and acts as a counterpart to higher education programmes. The OFPPT relies on a network of 380 establishments spread over the country (OFPPT, 2017). Since the introduction of the PNEI, the number of students per year has seen a strong increase from 155,696 in 2007/2008 to 544,000 in 2017/2018 (OFPPT, 2017). In 2017/18, 36 per cent of students took part in trainings pertaining to the industrial sector (OFPPT, 2017).

101 Interview 28; 29; 32.

102 Interview 1; 12; 16; 32.

103 Interview 21; 16.

Although, as reported during some interviews, a reform of the OFPPT has proven difficult in the past,[104] changes in the cooperation between the institution and the private sector can be observed, especially since the introduction of the PAI. The implementation of key sectors within the framework of the Plan Emergence and the PNEI has already led to some internal changes within the OFPPT, as some of these sectors also implied the creation of new professions and, thus, required the development of new training programmes. This could be observed primarily with respect to the automotive and the aeronautics sectors.[105] To cooperate with the private sector in adapting the various training programmes, the OFPPT has long had framework conventions with different industry associations and federations. However, during the last years these seem to have become more intense, also due to an increased activity on the part of the private sector.

> We have always had agreements with associations and federations. However, before they were not very much put in practice. We had the convention, but its implementation was slowed down. It was really not very accelerated […]. Now, on the other hand, we really feel a commitment on the part of the profession, a very strong commitment […]. And it's better, better for the sector and for us. We have arrived at a synergy that was not there before and which can only be at the service of the national economy. (Interview 22)

Other interviewees from industry associations also confirmed that they were working closely together with the OFPPT to develop and adjust the different training programmes.[106] The cooperation has also evolved in its institutionalised form as the conventions have progressively been complemented by contracts to accompany the sectoral ecosystems. These contracts are signed between the OFPPT, the sectoral association, and the Ministry of Industry and specify the objectives and obligations of the different parties. Notably, while the OFPPT commits to providing and developing the different kinds of training, the industry association complements these efforts by providing input, accompanying the OFPPT, and mobilising the companies of the sector whenever their integration is necessary for the aforementioned points. Furthermore, the contracts specify a regular evaluation by a monitoring committee consisting of the same three parties.[107]

Change has also taken place in the area of public education, especially since the introduction of the PAI, intensifying and further formalising the cooperation between the different actors. In the past, education programmes were mainly based on creating volume not quality, leading to a market mismatch. Therefore, in addition to the changes made in the sphere of public training, policy-makers have also addressed this criticism through another measure: In some of the key sectors, professional training institutes were created, which are owned by the state but managed by private entities. These institutes complement the OFPPT activities and specifically address the needs of the textile sector (Casa Moda Academy), the automotive (IFMIA[108]) and aeronautics (IMA[109]) sector as well as the renewable energy sector (IFMEREE[110]).

104 Interview 4; 9.

105 Interview 22.

106 Interview 11; 12; 16; 32.

107 Interview 22.

108 Institute for Vocational Training for the Automotive Sector (*Institut de Formation aux Métiers de l'Industrie Automobile).*

Their functioning can be illustrated by the case of the automotive sector that is referenced in Hahn and Vidican Auktor (2017). The three operational IFMIA (*Institut de Formation aux Métiers de l'Industrie Automobile*) professional training centres were created from 2011 onwards (AMICA, 2016a) and are specifically aimed at satisfying the skill needs of the companies in the automotive sector. In their objective to address the market mismatch problem, the IFMIAs have become integral actors of the automotive sector. In the case of IFMIA TM in Tangiers, the managing entity is Renault, while the other two in Casablanca and Kenitra are managed by AMICA through the company IFMIA SA. Although the types of training offered by the two institutes differ in the details (for instance, the content of the trainings), they can be broadly differentiated in two types: apprenticeships with practical elements, which are aimed directly at the workforce,[111] and trainings that are conducted with companies upon their request. The respective modules for both types have been developed in cooperation with the automotive industry and can be adapted if their requirements change. The success of this model is reflected in the amount of applications for the apprentice programmes, which regularly exceed the places available, as well as the high hiring rate that is reported by the IFMIA. However, the output that can be generated by the institutes is somewhat limited: the different apprenticeship trainings have a capacity of 80 to 1,300 persons per year depending on type and IFMIA centre.[112]

These deliberate political measures seem to have resulted in a positive perception of the availability and skill level in the market. Although some interviewees acknowledged that they had had difficulties finding qualified labour in the past, they also highlighted that they considered skilled labour among the key assets of Morocco as a location (Hahn and Vidican Auktor 2017). However, it also needs to be highlighted that the OFPPT as well as the IFMIAs provide vocational training and do not reflect any developments in the areas of higher education or research, which would show a gradual shift towards highly skilled labour and technology-intensive production.

6.3 Hurdles to be addressed

Despite the promising development that can be seen with regard to the inclusion of different actors and establishing permanent channels of communication (essential for embeddedness of policy-making), some hurdles have turned up in the process or still need to be appropriately addressed (to satisfy criteria for autonomy in decision-making). Only then can we conclude that these changes in the policy-making process lay the foundation for a new social contract when it comes to industrial development and long-term growth. First, as we have seen in the previous section, industrial policy-making in Morocco has been modernised and has become more reactive, by including the private sector in the decision-making

109 Institute for Aeronautic Professions (*Insitut des Métiers de l'Aéronautique*).

110 Institutes for Vocational Training for the Renewable Energy and Energy Efficiency Sector (*Instituts de Formation aux Métiers des Énergies Renouvelables et de l'Efficacité Énergétique*).

111 As an example, IFMIA Casablanca offers two tracks: one is a two-year programme to train technicians that includes practical and theoretical elements and addresses students who have graduated from high school; the other one is a three- to nine-month training course as operator (that is, logistics, machines) for people who have not obtained a high school diploma and/or come from another profession.

112 Interview 3; 5; 6; 9; 12; 14; 15.

process. However, more can be done in the area of inclusion to achieve higher levels of embeddedness. Second, while the focus has been oriented towards increasing embeddedness, little has been done to ensure autonomy in the decision-making process, specifically with regard to monitoring and evaluation and systematic implementation.

Deeper inclusion

While industry associations have been made part and parcel of the decision-making process for key sectors, a remaining question is the extent to which the associations are really able to represent the totality of their members and let their interests influence industrial policy-making, as well as the extent to which other actors, such as trade unions and civil groups, are included in the policy process. So far, industrial policy has laid a greater focus on attracting MNCs and industry leaders than in deliberately developing local companies and upgrading SMEs. Although the latest policy plan increasingly includes these aspects, it is unclear if they will be further focused on in the future. Industry associations could significantly contribute at this point, if they were to actively represent their members' interests and were included in the policy-making process. A factor that may counteract this and undermine their influence, however, is that large companies often directly interact with the Ministry of Industry to negotiate their investment terms and communicate their interests. As such, they not only have a significant influence through their sheer size and influence on the industry, but also through informal channels of communication (Mhaoud, 2018; Saadi, 2016; Mesbahi, 2017; Nabli et al., 2006). These cannot be rivalled by SMEs on an individual basis making them effectively dependent upon their industry association. The active inclusion of a more diverse set of stakeholders, such as for example trade unions, could also help to achieve a greater representation and also ensure that the interests of smaller stakeholders are taken into account.

Monitoring and evaluation

Monitoring and evaluation provide a basis for learning, informed decision-making and accountability, successfully linking plans/strategies to results, and thus ensuring development. Our findings, however, show strong weaknesses in this regard. Although some measures have already been taken in the framework of Morocco's industrial policy, this aspect still provides room for further improvements, especially considering the importance of these factors for successful policy-making.

With the PNEI, the *Assises d'Industrie* were established, which are high-level national meetings that were planned to take place on an annual basis and were notably also attended by the King himself.[113] The goal of these meetings has been to communicate the progress that was achieved in the different axes of the policy to relevant stakeholders (Royaume du Maroc, 2008). They took place three times during the period of the PNEI (2010-2012). Another high-level meeting took place in 2014 to present the PAI.[114] However, although these meetings provide a means for monitoring and evaluation, they did not seem to lead to a comprehensive and detailed evaluation report that would clearly

113 It is not clear who the other attendants were, but it can be assumed that they encompassed the nine ministries as well as the two private sector institutions listed in the official policy document.

114 Interview 27; 29; 34; 39.

contrast objectives and achievements – or at least no document is publicly available or could be clearly referred to by any of the interview partners.[115] Since the introduction of the PAI, it is also not clear how often the *Assises d'Industrie* have taken place, or if at all.[116] Such meetings are also too high level, and take place too seldom to ensure the systematic monitoring and evaluation of outcomes. Nonetheless, the measures of the PAI have introduced further means at the sectoral level, which might prove more effective. The performance contracts include a paragraph that mandates regular meetings of a monitoring committee to follow the achieved progress.[117] However, from our interviews we could not distinguish how effective these tools were and the extent to which relevant stakeholders found them beneficial.

In general, monitoring mechanisms seem to take place rather on the level of single institutions. For example, OFPPT[118] as well as Maroc Export[119] stated that they monitor their activities and results and evaluate on an annual basis. The performance contracts also fall into this category. Additionally, the Ministry of Industry evaluates the performance of the industrial sector and its sub-sectors in terms of production, exports and so on based on an annual enterprise survey.[120]

The performance contracts are an important step forward, as they clearly specify objectives at the sectoral and sub-sectoral level and set a framework to distribute responsibilities and implement regular evaluation meetings. From a macro-perspective, however, an encompassing evaluation that considers and consolidates all individual efforts would be necessary to provide solid insights into the achievements, results and eventually weaknesses of the respective industrial policy.[121]

An institutionalised evaluation mechanism based on clear criteria and conducted by an independent entity would be able to provide multiple strengths to the policy: firstly, it would give the government reliable and structured information on whether goals were achieved or not: that is, whether the policy plans included the right means; whether money was invested in the right places and whether objectives needed to be adjusted; secondly, at a detailed level, it would clearly show areas of weaknesses within different instruments, so that these could be addressed and improved; and thirdly, a transparent communication of such results would give the followed policy justification and legitimacy.[122] As Rodrik

115 Interview 24; 27; 29; 34.

116 One interviewee indicated that a meeting had taken place in 2016, but none of the other interviewees were aware of any meetings since 2014.

117 Interview 29; 32.

118 Interview 22.

119 Interview 25.

120 Interview 29.

121 Such evaluation efforts are necessary not only with reference to industrial development, but also for other sectors. In education, for example, several initiatives have been created at the level of universities and the Ministry, but few have been implemented. Therefore, this is a systemic problem and should be addressed as such.

122 These aspects also somewhat touch upon the difficulties in the collection of statistical data, which was discussed at the beginning of the paper, and which would need to be consolidated and streamlined to avoid conflicting results from differing public entities.

(2008) argues, the successful implementation of industrial policy requires a transparent system of "carrots and sticks", which on the one hand encourages investments in non-traditional areas, but on the other sorts out projects that fail. In other words, "conditionality, sunset clauses, built-in programme reviews, monitoring, benchmarking, and periodic evaluation are desirable features of all incentive programmes" (p. 22). It would furthermore also serve as a means to avoid capture and to strengthen the autonomy of decision-makers in a situation of increased embeddedness, which we argue is essential for a new social contract that could ensure sustainable and inclusive development.

Systematic implementation

A closer examination of the realisation of the ecosystems reveals that, despite the strengths of the concept, its implementation is a slow-moving process in some key sectors. While ecosystems have already been well implemented in some sectors, such as textile and automotive, others have not yet signed the framework contracts although half of the period of the PAI has already passed. For example, the agreement between the Ministry of Industry and FENELEC had not yet been signed at the time of writing of this study.[123] This is especially noteworthy as the federation not only encompasses the electronics sector for which two ecosystems are planned, but also the electricity and renewable energy sectors, which are among the key sectors which were newly added to the PAI. Hence, although the concept foresees closer public-private cooperation and embeddedness, it has so far – nearly three years into the PAI – only partially been implemented. Regardless of the reasons behind the respective delays, a comprehensive implementation throughout all key sectors of the PAI is the basic requirement to achieve results on a broader level and eventually provide a comprehensive embeddedness. The experiences of different sectors will also help to further refine the concept and improve on weaknesses and challenges.

The development of the different industrial sectors also shows an asymmetry that should be addressed to achieve social goals, especially related to employment. While FDI-intensive sectors show the strongest development in terms of growth, traditional sectors, such as textile and food processing, are the largest employers. At the same time, the present analysis has shown that the growth of the textile sector was not only weak from 2004 to 2013, but the sector has faced a continuous decline, while the food-processing sector is – at least according to official sources – no longer mentioned in the PAI. Thus, considering the importance of these sectors for the workforce, they should not be shadowed by the successes of new and strategic sectors, but their needs carefully analysed, and re-education programmes provided for workers whose professions may be irreversibly replaced by imports or machines. This ultimately requires the systemic coordination of goals and the implementation of strategies and sectoral plans, which up to now has been neglected (CESE, 2017; Mesbahi, 2017).

123 Interview 28; 31; 35; 36. According to the interview partners, the study for the definition of the different ecosystems had already been conducted in 2015; however, due to internal differences the signature of the agreement was delayed until 2017.

7 Conclusions

This study explores an interesting and surprising case of industrial development in the MENA region. It is interesting because, compared to its peers in the region, Morocco has succeeded in sustaining economic growth and attracting foreign investment in key sectors, in spite of at least a decade of political and economic instability across MENA. During this time, major changes to its industrial strategy have been made along with other efforts to enable deeper social and economic development. Morocco provides us with a surprising case because these outcomes seem to not only defy conventional wisdom with respect to the effectiveness of targeted industrial policy interventions (at sectoral and firm level) and that of stakeholders such as business associations; they also question previous analyses that tend to provide a uniform view of the region as being ruled by clientelistic (and thus non-developmental) political regimes only interested in securing rents for the exclusive business elites. Instead, we find a relatively friction-free public-private process aiming to optimise economic competition and development outcomes in strategic sectors. To disentangle political economy dynamics between different actors, as well the distribution of rents across stakeholders, further research is needed to examine in greater detail the politics of industrial policy in Morocco.

We started our analysis by acknowledging the need for a new social contract in the MENA region that breaks up the old status quo and redefines key dynamics. We have argued that industrial policy can provide a substantial contribution to this process. As failing economic performance and unemployment are, to a large extent, the result of a weak private sector, industrial policy provides a tool to improve competitiveness and reorient the economic structure towards productivity enhancing activities/sectors that ensure long-term growth and employment. In this process of achieving these ultimate objectives (productivity, jobs, growth), we have claimed that, if implemented properly, industrial policy can also pave new ways of collaboration between government, business and non-business actors, which we have referred to as an enhanced form of "embedded autonomy". This, ultimately, can lay the basis for a new social contract, one that ensures sustainable and inclusive long-term growth.

In order to fulfil the outlined role, however, industrial policy design and implementation need to be based on certain criteria: i) systematic inclusion of diverse sets of stakeholders in the policy-making process (to make sure that the needs of different types of firms and actors are considered in policy design); and ii) monitoring and evaluation (to ensure that those needs are satisfied by the considered policy tools/strategies and that special interests are not prioritised to the detriment of other, less powerful, stakeholders).

The first criteria, of systematic inclusion, which we refer to as embeddedness in our analysis, has been largely satisfied, although much more needs to happen to ensure that it results in an institutionalised process that can be replicated for other sectors/development goals. A new model of coordination and cooperation across actors, with the private sector (rather than only lead (state-owned) national and international firms) playing a more prominent role in decision-making took shape. This resulted in new concepts that aimed to address structural weaknesses in the SMEs, establish a clearer vision, and indicate to national as well as international stakeholders (and investors) which sectors are considered the main drivers of industrial development. As a result, the automotive sector in particular (including many electronics companies) grew significantly with regard to production,

exports, and employment as well as investment. However, despite the strong performance of some key sectors, the industrial sector as a whole did not transform in the envisioned way, as there is no strong evidence for the overall objective of structural change. Also, even though a sound evaluation cannot be made within the framework of this study, it seems that, while the gross creation policy objectives have been reached, the net effects remain well below the expectations. This was not least also due to the weak performance and even decline in other key sectors, especially the textile and apparel sector, that partially offset the good results achieved by growth and productivity in other industries. To further improve in the areas of job creation and sustained growth (an essential condition for sustaining the new social contract), Morocco should continue to improve the quality of education and vocational training. Although much has already been done in this area within the industrial policy framework, lifting it to international standards will be crucial to enable success and upgrading in the long term. Additionally, SMEs – which still make up the majority of companies in the manufacturing sector – need to be further supported through an improved business climate to be able to enter international value chains. Finally, future industrial policy should not only rely on cost advantages to build up industries, but also put a stronger emphasis on innovation. Megatrends, such as digitalisation and Industry 4.0 have not entered into Moroccan policy considerations so far, despite their fundamental implications for industrial development (CESE, 2017). This is even more important as they do not only pose challenges by replacing human labour, but also a range of new opportunities and jobs in emerging sectors from which Morocco should not exclude itself (Thoumi, 2018). A deeper and more systematic inclusion of stakeholders, within and across sectors, is essential to achieving these long-term objectives. Moreover, a deeper embeddedness by engaging with non-business actors could also ensure that the increasing "population exodus" from rural to urban areas, and the pressure it adds to the labour market, can be considered within the development strategies of the economic sectors.

This brings us to the second criteria, of monitoring and evaluation of outcomes, crucial for satisfying the autonomy dimension, for strengthening accountability and fostering learning. From this perspective, Morocco has a long way to go to be able to fully benefit from its extensive development potential. Presently, we see only weak mechanisms for measuring the effectiveness of different policy instruments, of evaluating outcomes, and monitoring implementation processes. As other analysts have argued, this remains an important shortcoming of policy-making across the board in Morocco. It is also reflective of the political economy context where the state-business relations remain very much defined by special interests and rent-seeking (Saadi, 2016; Mhaoud, 2018). Thus, a deeper analysis of the political economy of industrial development in Morocco is necessary to find ways for improving autonomy in the decision-making process, and thus ensuring that industrial policy can lead to a sustainable and inclusive development.

Yet, despite the challenges outlined above, Morocco has taken a promising direction with regard to its industrial policy and the development of different policy plans. If the weaknesses identified are taken into consideration and addressed in the near future, industrial policy might very well prove itself a valuable contribution to a new social contract in the country and serve as a point of reference for peers in the MENA region. This would also contribute to reducing the risk that these pockets of effectiveness do not remain limited to these sectors (or to these results) and that the policy-making process that contributed to these outcomes becomes institutionalised. As the search for a new model of

development which can deliver in terms of jobs, long-term growth, and welfare, is currently high on the agenda of policy-makers in Morocco, this opens a real window of opportunity to fill these gaps and pave the way for a more sustainable and inclusive development process.

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Annex

Table A1: List of interviews

Number of interview	Stakeholder category	Geographic cluster	Date
1	Supplier (sector: batteries)	Casablanca	12 May 2016
2	Supplier (sector: engines)	Casablanca	14 May 2016
3	Training institution: IFMIA Casablanca	Casablanca	15 May 2016
4	German-Moroccan bilateral cooperation institution	Rabat	16 May 2016
5	Training institution: IFMIA Kenitra	Kenitra	18 May 2016
6	Policy-maker: Ministry of Industry	Rabat	19 May 2016
7	Policy-maker: Invest in Morocco	Rabat	19 May 2016
8	German-Moroccan bilat. Cooperation institution	Casablanca	20 May 2016
9	Training institution: IFMIA Casablanca	Casablanca	20 May 2016
10	Manufacturer	Casablanca	22 May 2016
11	Industry institution/supplier (sector: metal processing)	Tanger	23 May 2016
12	Industry institution/supplier (sector: seating)	Tanger	24 May 2016
13	Supplier (sector: plastic processing)	Tanger	25 May 2016
14	Manufacturer	Tanger	25 May 2016
15	Training institution: IFMIA TM	Tanger	25 May 2016
16	Industry institution (industry: automotive)	Tanger	25 May 2016
17	Policy-maker: *Office des Changes*	Rabat	26 May 2016
18	Policy-maker: Ministry of Foreign Trade	Rabat	27 May 2016
19	Policy-maker: Maroc PME	Rabat	31 May 2016
20	Supplier (sector: metal processing)	Casablanca	3 June 2016
21	Academia	Rabat	3 June 2016
22	Academia/training institution: OFPPT	Casablanca	16 October 2017
23	Industry institution (industry: electronics)	Casablanca	17 October 2017
24	Policy-maker: DEPF	Rabat	18 October 2017
25	Policy-maker: Maroc Export	Casablanca	20 October 2017
26	Industry institution (industry: textile and apparel)	Casablanca	20 October 2017
27	Policy-makers: *Office des Changes*	Rabat	23 October 2017
28	Industry institution (industry: electronics)	Casablanca	26 October 2017
29	Policy-maker: Ministry of Industry	Rabat	27 October 2017
30	Policy-maker: Regional Investment Centre Rabat	Rabat	28 October 2017
31	Industry institution (industry: electronics)	Casablanca	2 November 2017
32	Industry institution (industry: textile and apparel)	Casablanca	2 November 2017
33	Industry institution (industry: automotive)	Casablanca	3 November 2017
34	Academia	Rabat	7 November 2017
35	Industry institution (industry: renewable energy)	Rabat	8 November 2017
36	Industry institution (industry: electronics)	Casablanca	9 November 2017
37	German-Moroccan bilateral cooperation institution	Rabat	9 November 2017
38	Media	Casablanca	15 November 2017
39	Policy-maker: Ministry of Industry	Rabat	16 November 2017
40	Supplier (sector: wiring)	Rabat	28 November 2017

Table A2: Overview of relevant ISIC codes		
ISIC code	**Description**	**Corresponding key sectors within the industrial policy framework**
17	Manufacture of textiles	Textile, apparel and leather sectors
18	Manufacture of wearing apparel, dressing and dyeing of fur	Textile, apparel and leather sectors
19	Tanning and dressing of leather, manufacture of luggage, handbags, saddlery, harness and footwear	Textile, apparel and leather sectors
27-37	Mechanics, metallurgy and electronics sectors (summarized)	Automotive, aeronautics, and electronics sectors
31	Manufacture of electrical machinery and apparatus n.e.c (national electric code)	Automotive, aeronautics, and electronics sectors
311	Manufacture of electric motors, generators and transformers	
312	Manufacture of electricity distribution and control apparatus	
313	Manufacture of insulated wire and cable	
314	Manufacture of accumulators, primary cells and primary batteries	
315	Manufacture of electric lamps and lighting equipment	
319	Manufacture of other electrical equipment n.e.c	
34	Manufacture of motor vehicles, trailers and semi-trailers	Automotive sector
341	Manufacture of motor vehicles	
342	Manufacture of bodies (coachwork) for motor vehicles; manufacture of trailers and semi-trailers	
343	Manufacture of parts and accessories for motor vehicles and their engines	

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