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MOROCCO-BRAZIL ECONOMIC RELATIONS: Current situation and strategies for a deeper relationship

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Paper produced in the framework of the CINDES OCP Policy Center analytical partnership

[i+d] CINDES
Centro de Estudos de Integração e Desenvolvimento

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About OCP Policy Center

The OCP Policy Center is a Moroccan policy-oriented think tank based in Rabat, Morocco, striving to promote knowledge sharing and to contribute to an enriched reflection on key economic and international relations issues. By offering a southern perspective on major regional and global strategic challenges facing developing and emerging countries, the OCP Policy Center aims to provide a meaningful policy-making contribution through its four research programs: Agriculture, Environment and Food Security, Economic and Social Development, Commodity Economics and Finance, Geopolitics and International Relations.

On this basis, we are actively engaged in public policy analysis and consultation while promoting international cooperation for the development of countries in the southern hemisphere. In this regard, the OCP Policy Center aims to be an incubator of ideas and a source of forward thinking for proposed actions on public policies within emerging economies, and more broadly for all stakeholders engaged in the national and regional growth and development process. For this purpose, the Think Tank relies on independent research and a solid network of internal and external leading research fellows.

One of the objectives of the OCP Policy Center is to support and sustain the emergence of wider Atlantic Dialogues and cooperation on strategic regional and global issues. Aware that achieving these goals also require the development and improvement of Human capital, we are committed through our Policy School to effectively participate in strengthening national and continental capacities, and to enhance the understanding of topics from related research areas.

In parallel to this, we strive to build a strong Young Professionals Network of emerging leaders dedicated to Africa's transformation, by providing original and stimulating opportunities for involvement with a rising generation of new decision makers in various sectors.

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About CINDES

Created in March 2006, the Centre for Studies in Integration and Development (CINDES) is a research institute that seeks to contribute to the deepening of the debate about the relations between Brazilian development and its international integration. Since then CINDES has consolidated as a policy-oriented studies centre that analyses Brazilian foreign economic policy, its positions and interests in different negotiation fora, the evolution of the global scenario and its impacts on the country's economy and policies.

Through its studies, research and seminars, CINDES establishes itself as an independent think tank. In our view, Brazil's international insertion should be guided by the following values:

- Promotion of an open economic and political international environment, compatible with the sustainable development paradigm;
- Support for Brazil's growing involvement in issues of global governance and in the international cooperation initiatives focused on the production of global public goods and the consolidation of a multipolar world order;
- Support for Brazil exercising a responsible leadership in Latin America through the promotion of a broadened economic agenda (trade, investments, infrastructure and climate change); and
- Defense of human rights and representative democracy.

CINDES works alongside a network of organizations and specialists in Brazil and abroad, developing studies and research lines, organizing seminars and meetings and disseminating information on integration and social and economic development.

About the Authors

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MOROCCO-BRAZIL ECONOMIC RELATIONS: Current situation and strategies for a deeper relationship

1. INTRODUCTION

Despite the sustained growth in the bilateral trade observed at the beginning of the Century, Moroccan – Brazilian economic relations are still going through what could be called the 'shallow' phase of relations between two middle-income countries.

Trade is concentrated in a few products – those where both countries enjoy long lasting and natural comparative advantages – and face strong difficulties to diversify in terms of products and to upgrade towards more complex models of linkages (e.g. value chain model). At the investment level, bilateral flows and stocks are almost irrelevant. Brazil has not been able to seize the opportunities opened by the recent industrial development of Morocco and its diversified set of (industrial) policies and incentives.

Until recently, the management of bilateral economic relations by the governments seems to follow a 'business as usual' model, as the timid efforts to initiate a discussion on a trade agreement were left aside in the middle of the previous decade. In the beginning of 2016, both sides began to signalize renewed interest in promoting bilateral economic ties. It seems to be the right moment to deepen the understanding of the existing opportunities and barriers to trade and investment between the two countries.

This study aims to provide technical elements to support a revision of the current state of the art and to devise a strategy to improve and to deepen the bilateral economic relations. Departing from the current situation, this research paper presents a roadmap to improve and to deepen the bilateral economic relations, with a focus on the negotiations of trade and investment agreements.

Section 2 of this paper presents a brief description of the main economic characteristics and indicators of the Brazilian and Moroccan economies, their economic structures, and recent trends. In order to contribute to the understanding of the characteristics of the external economic relations of each country, Section 3 presents a detailed analysis of the trade and foreign investments profiles of both countries. Section 4 describes trade and industrial policies, as well as import tariff policies, preferential trade agreements negotiated by each of them and the FDI policies they have been implementing.

The assessment of bilateral trade profile is developed in Section 5. Some of the indicators calculated in this section show the degree of concentration, intensity, and the complementarity of bilateral trade flows. An analysis of these indicators led to the identification of opportunities to expand bilateral trade. Departing from the findings in this research, section 6 presents some elements that could be included in a roadmap of initiatives to foster bilateral economic relations. Section 7 concludes the paper.

2. ECONOMIC CHARACTERISTICS OF BRAZIL AND MOROCCO: MAIN ECONOMIC INDICATORS

Although the economies of Brazil and Morocco might have some similarities, the striking differences in the size of the two countries make a comparison between their economic indicators impossible. Brazil has a population of 204 million people (2015), the sixth largest in the world, while Morocco is the fortieth, with a population of 33.7 million people.

Accordingly, Brazil's GDP amounted to US$ 1.8 trillion in 2015, or the eighth in the world ranking in PPP[1] terms, compared with Morocco's GDP of US$ 100.4 billion – 58th in the world. However, while Brazilian GDP (PPP) is almost 12 times larger than Morocco's, Brazilian GDP per capita is only twice as big. The much better Moroccan income distribution is revealed by its Gini index[2] of 40.7 when compared to 52.9[3] for Brazil (Table 2.1).

Table 2.1 : Main Economic Indicators (2015) Brazil and Morocco

	Brazil	Morocco
Population (millions of people)	204.30	33.80
GDP (current US$ million)	1.774.724.82	100.359.55
GDP, PPP	3.192.398.00	273.358.21
GDP per capita (current US$)	8.538.60	2.871.50
GDP per capita, PPP (current international $)	15.359.30	7.821.40
Gini Index	52.9a	40.9b
Inflation, consumer prices (annual %)	9.00	1.60
Gross capital formation (% of GDP)	21.0	32.0
Total reserves (in months of imports)	14	6
Foreign Direct Investment (% of GDP)	3.6%	3.2%
Current account balance (% of GDP)	-3.3%	-1.9%
Foreign Direct Investment (inflow, US$ million)	64.648,00	3.162,00
Current account balance (BoP, current US$ million)	-58.882,21	-1.923,29

a. Estimated for 2013. b. Estimated for 2007.
Source: WDI, World Bank. [http://data.worldbank.org/topic/economy-and-growth?view=chart]

2.1. Brazilian economy: structural aspects and recent developments

Brazil has a large and competitive agricultural sector. It is the world's third-largest agricultural exporter (in value terms), after the United States and the European Union. Nevertheless, agriculture only accounts for 5% of Brazilian GDP. Brazil has also developed a diversified and sophisticated industrial sector through an extensive process of industrialization based on an import substitution strategy, combining high levels of tariff and non-tariff barriers with a fairly liberal FDI regime. In the early 1980s, Brazil had a diversified and domestic market-oriented industrial structure. As a result of its intense efforts to promote industrialization,

1. Purchasing Power Parity (PPP).
2. The Gini index measures the degree of inequality in the distribution of family income in a country. The more nearly equal a country's income distribution, the lower its Gini index. If income were distributed with perfect equality the index would be zero; if income were distributed with perfect inequality, the index would be 100.
3. Source: WDI, World Bank. The Gini index for Morocco is estimated for 2007 while for Brazil it is 2013. The Brazilian index for 2007 was even higher: 55.2

the country had «an industry much larger than that of countries with a level of development, population, (…) and technological intensity similar to ours» (Bonelli and Person, 2011).

A long period of macroeconomic instability, from the early 1980s to the mid-1990s, gradually led Brazil to hyperinflation and economic stagnation. The transition to democracy and the beginning of a series of civilian governments took place at the end of this period, which successfully implemented macroeconomic stabilization plans (especially the Plano Real). The combination of tight monetary and fiscal policies with microeconomic reforms, including trade liberalization and the privatization of state companies, prepared the country for the 'years of emergence,' fostered by the international commodity boom during the years 2000s. This period largely coincided with President Lula´s terms of office, when Brazil's international prestige grew strongly (Motta Veiga and Rios, 2015).

Brazil was hit by the international economic crisis of 2008, but was one of the first developing economies to recover: in 2010 Brazilian GDP grew by 7.5%. Nevertheless, since 2011, due to a combination of ill-conceived domestic policies and a fall in international commodity prices, the country has been going through 'new hard times,' combining slow (and recently negative) economic growth, fiscal deterioration, and a deep crisis in the industrial sector. The risks and consequences of the de-industrialization process that persists in Brazil are at the central stage of the current economic debate in the country. The fall in the share of industry (mainly manufacturing) in GDP during the last 15 years was compensated by the increase in the share of services (Table 2.2).

Table 2.2 : GDP – Sectorial Breakdown (%)

	Brazil		Morocco	
	2000	2014	2000	2014
Agriculture	6%	5%	13%	13%
Industry	27%	24%	30%	29%
Manufacturing	15%	12%	21%	18%
Services	68%	71%	57%	58%

Source: WDI, World Bank. [http://data.worldbank.org/topic/economy-and-growth?view=chart]

Brazil is currently facing its deepest crisis in terms of economic growth: GDP decreased by 3.8% in 2015, after the stagnation of 0.1% in the previous year. The recession came together with inflationary pressures, with consumer prices growing by 9% in 2015. Economic instability and political uncertainty have been deterring investment. On the positive side, although Brazil still faces deficits in its current account, the country continues to receive relevant amounts of foreign direct investment (FDI) – US $64 billion (or 3.6% of the GDP) in 2015, the eighth position in the world ranking – and has accumulated a significant amount of foreign reserves – US $346 billion.

The new government, which took office in September 2016, is seeking to implement broad economic reforms. These include a strong attack on fiscal imbalances and microeconomic reforms with the aim of improving the business environment and stimulating the international integration of the Brazilian economy through the negotiation of preferential trade agreements. Consumers and business confidence indexes have begun to present positive signs.

2.2. Moroccan economy: structure and recent developments

Morocco succeeded in building a diversified and market-oriented economy. The country benefited from its proximity to Europe, rapid demographic growth, and high investment rates (very high compared to Brazil). Key sectors of the economy include agriculture, aerospace, automotive, phosphates, textiles and apparel. As shown in Table 2.2, agriculture accounts for 13% of total GDP, while industry represents 29%. Fishing activities are also relevant, due to the lengthy Mediterranean and Atlantic coasts.

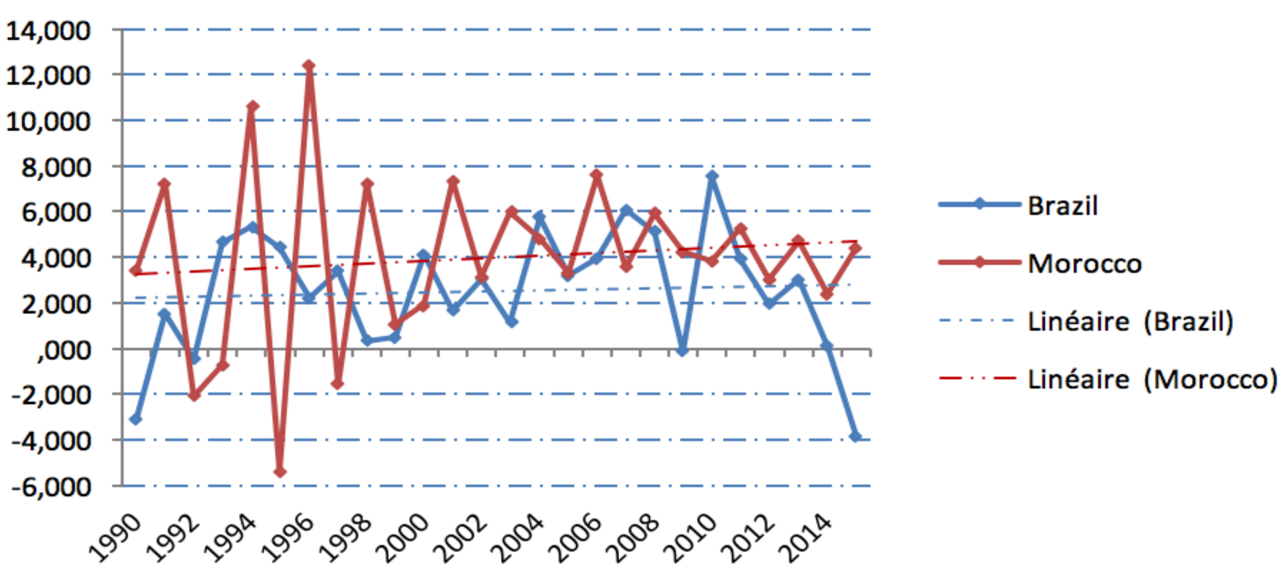
Although the share of manufacturing in domestic production is declining, it still is responsible for 18% of GDP, which is much higher than in the Brazilian case (Table 2.2). Morocco is one of the world's main phosphates producers and a relevant supplier of this raw material and fertilizers to Brazilian agriculture.

According to the WTO (2015), Morocco is now among the leading producers of automobiles and motor vehicle and aeronautical accessories worldwide. In the services sector, apart from tourism, transport and financial services were among the most dynamic service activities in the 2008-2014 period.

Morocco has been also increasing investment in its ports, transport, and industrial infrastructure, in a strategy to create the necessary conditions to function as a hub for FDI and business throughout Africa. Industrial development strategies and infrastructure improvements – most visibly illustrated by a new port and free trade zone near Tangier – are improving local competitiveness (see CIA, World Factbook).

Similar to Brazil and many other developing economies, Morocco suffered from macroeconomic instability during the 1980s with a very high level of external debt. Nevertheless, since the late 1990s, the Moroccan government has implemented wide-ranging economic reforms and, as a result, the country has been enjoying steady economic growth combined with low inflation rates. From 2000 to 2015, average annual GDP growth was 4.5%, without presenting negative rates in any of these years, not even in 2009, at the height of international economic crisis. By contrast, Brazil's average annual economic growth rate, in the same period, was 2.9%, with a sharp decline in recent years.

Figure 2.1 : GDP Growth (annual %) Brazil and Morocco 1990 - 2015



Source: WDI, World Bank. [http://data.worldbank.org/topic/economy-and-growth?view=chart]

Brazil's economic size is also reflected in the country's share of regional GDP. Despite the fact that its economy grew much slower than the average of its neighbors, the country still accounts for 29% of Latin America and Caribbean GDP (Table 2.3). Brazil's share in LAC GDP was 34% in 2000.

Moroccan performance went in the opposite direction. Although enjoying a much smaller share of African GDP, Morocco was able to increase its share in the continent's economy from 4.5% in 2000 to 6.9% in 2015.

Brazil is already a relevant player in Latin America, despite the fact that its economic relevance is not fully reflected in its trade and investment relations with the continent. The new governmental approach towards trade agreements will possibly contribute to regional economic integration.

Table 2.3 : Brazil and Morocco share in their regions GDP - 2000 and 2015

	Brazil/Latin America & Caribbean (%)	Morocco/Africa (%)
2000	34,47	4,47
2015	28,97	6,86

Source: WDI, World Bank [http://data.worldbank.org/topic/economy-and-growth?view=chart]

As stated at the beginning of this section, Brazil and Morocco are very different economies. Brazil is a large economy, with a diversified sectorial production, struggling to recover economic growth. Morocco is a relatively small but dynamic economy, pursuing diversification of its productive structure and seeking to play a relevant role as a hub for business in Africa. In the next section a detailed profile of both countries' foreign trade is presented.

3. BRAZIL AND MOROCCO: GLOBAL TRADE AND INVESTMENT

Brazil's volume of foreign trade in absolute terms is naturally quite higher than that of Morocco (Table 3.1). However, the Moroccan economy is significantly more open than the Brazilian — the flow of trade amounted to 55% of Moroccan GDP in the 2012/2014, a percentage far higher than that of Brazil (19%). The greater weight of foreign trade in the GDP of Morocco is common to both trade flows, and is particularly significant in the case of imports (the imports to GDP ratio is 37% in Morocco and 10% in Brazil).

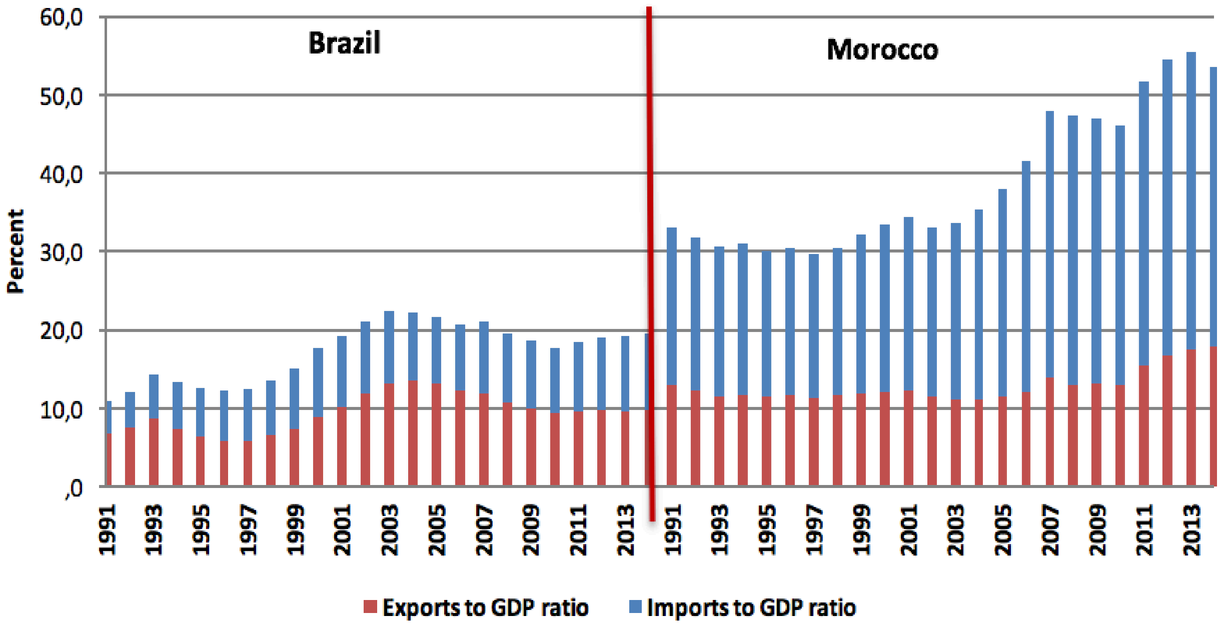
Table 3.1 : Brazil and Morocco total trade flows — 2012/2014 average

	Value (US$ billion)			Percent		
	Exports	Imports	Trade	Exports to GDP	Imports to GDP	Trade to GDP
Brazil	241.7	230.0	471.8	9.5	9.7	19.2
Morocco	26.4	44.3	70.7	17.6	37.1	54.7

Source: Value: BACI - CEP II; Percentage of GDP: World Development Indicators [World Bank national accounts data, and OECD National Accounts data files and International Monetary Fund, Balance of Payments Statistics Yearbook and data files]; own elaboration.

This difference can be observed over the last twenty-five years, but it is particularly large after 2005 (Figure 3.1), reflecting, as will be seen below, the significant increase in the imports to GDP ratio of Morocco in this period.

Figure 3.1 : Trade to GDP ratio - Brazil and Morocco - 1990-2015 (3-year moving average)



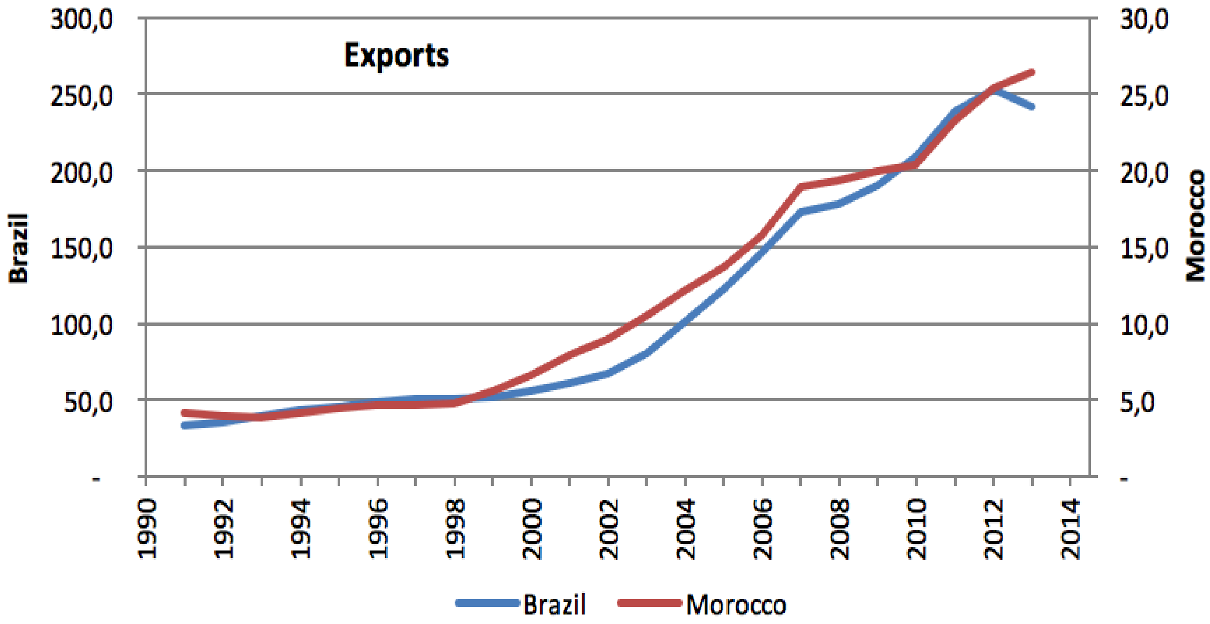
Source: Value: BACI - CEP II; Percentage of GDP: World Development Indicators [World Bank national accounts data, and OECD National Accounts data files and International Monetary Fund, Balance of Payments Statistics Yearbook and data files.

3.1. Evolution of Brazilian and Moroccan exports and imports

In the last twenty-five years, Brazilian and Moroccan exports have grown at rates higher than global trade (9.2%, 8.4%, and 7.4%, respectively). As a result, their share of world trade between 1990-91 and 2013-14 grew from 0.91% to 1.34%, in the case of Brazil, and from 0.12% to 0.15%, in the case of Morocco. However, exports from the two countries followed different trajectories during this period (Figure 3.2 and Table 3.2):

- During the 1990s, Morocco's exports grew at a rate (5.8%) similar to that of world trade and its share in this trade remained constant (0.12%). Brazil's exports grew at a slightly higher rate (6.5%), ensuring a small increase in its share from 0.91% to 0.98%.
- Exports from the two countries experienced a significant growth in the first half of the last decade, until the beginning of the 2008 crisis, with higher rates than those of global trade – especially in the case of Brazil. Their share in global trade rose from 0.98% in 2000-01 to 1.26% in 2006-07, in the case of Brazil, and from 0.12% to 0.13% for Morocco.
- The 2008 crisis brought about a sharp fall in both countries' exports in 2009 (23% in Brazil and 30% in Morocco), followed by a rapid recovery in 2010 and 2011. This recovery, however, was distinct in the two countries. Brazilian exports had higher growth rates during these two years, but experienced a slight decline in the 2012-2014 period. Moroccan exports showed an initial recovery that was a little slower, but has had positive growth rates, albeit moderate, in recent years. In the 2013-2014 the share of world trade was 1.34% for Brazil and 0.155% for Morocco.

Figure 3.2 : Brazil and Morocco exports - 1990-2014 (3-year moving average) – US$ billion



Source: BACI - CEP II, compiled by Funcex

As a result, the trajectories of exports' share of GDP of the two countries differ. (Table 3.2).

- Before the 2008 crisis, the exports to GDP ratio of Morocco declined slightly from 13.6% in 1990/1992 to 12.1% in 2006/2007, while the exports to GDP ratio of Brazil increased from 5.9% to 11.9%. Thus, the difference observed at the beginning of the 1990s between the two ratios disappeared.
- However, the difference was reestablished in subsequent years — the exports to GDP ratio of Morocco in 20132014 (17.6%) was almost twice that of Brazil (9.5%).

Table 3.2- Brazil and Morocco exports: growth rates, shares in world exports and ratio to GDP in selected years

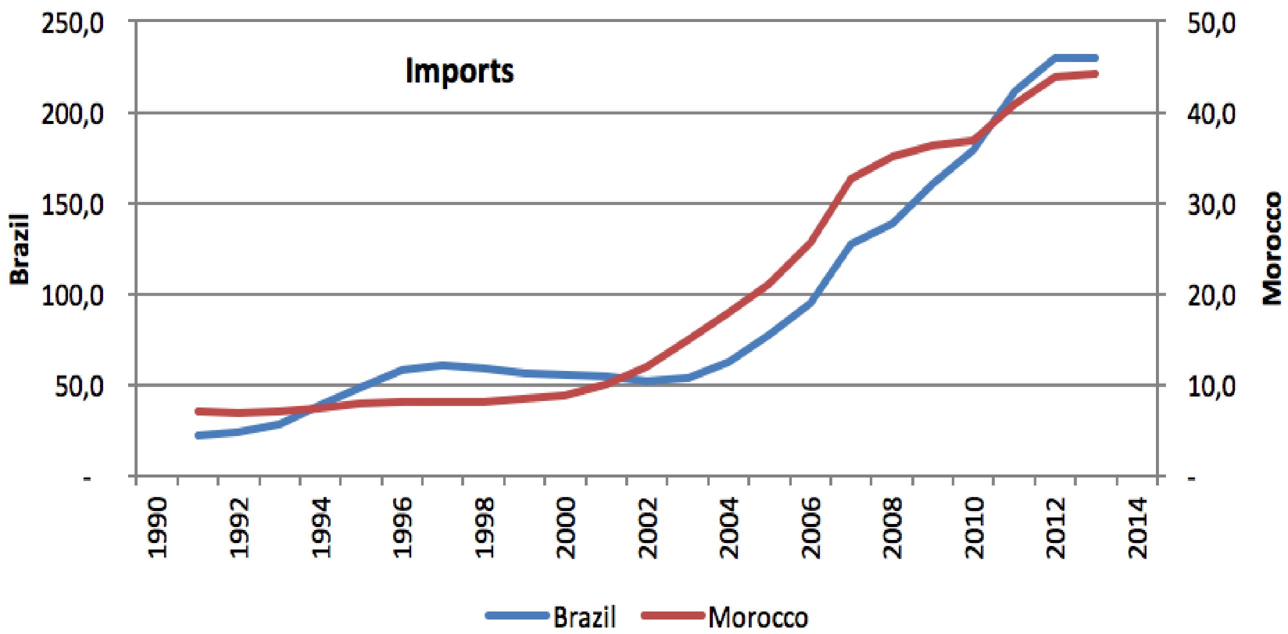
	Annual growth rates (percent)			
	1990/91-2000/01	2000/01-2006/07	2006/007-2013/14	1990/91-2013/14
Brazil	6.5	17.5	6.2	9.2
Morocco	5.8	14.3	7.2	8.4
World trade	5.7	12.8	5.2	7.4
	1990/91 average	2000/01 average	2006/07 average	2013/14 average
	Countries shares in world exports (percent)			
Brazil	0.91	0.98	1.26	1.34
Morocco	0.12	0.12	0.13	0.15
	Exports to GDP ratios (percent)			
Brazil	5.9	9.3	11.9	9.5
Morocco	13.6	12.2	12.1	17.6

Source: 1998-2014: BACI - CEP II, compiled by Funcex; 1990-1997: Comtrade/ONU, , compiled by Funcex.

Brazilian and Moroccan imports grew at a rate higher than world trade in the last twenty-five years (10.7%, 8.5%, and 7.4% respectively). These countries' shares in world trade grew between 1990/1991 and 2013/2014, from 0.61% to 1.31% in the case of Brazil, and from 0.18% to 0.25% in the case of Morocco (Table 3.3 and Figure 3.3).

- The growth rates of imports in the two countries had different trajectories during this period.
- Moroccan imports increased slowly in the 1990s (2.7% during the year), accelerating since then and presenting an annual growth rate of 17.2% in the 2001/2011 period. In recent years, the country's imports have remained stable.
- As a result of this trajectory, the imports to GDP ratio of Morocco has significantly increased in the last 25 years, especially from the beginning of this century, rising from 20.2% in 1990/1991 to 22.5% in 2000/2001, and to 37.1% in 2013/2014.

Figure 3.3 - Brazil and Morocco imports - 1990-2014 (3-year moving average) – US$ billion



Source: 1998-2014: BACI - CEP II, compiled by Funcex; 1990-1997: Comtrade/ONU, compiled by Funcex.

- Brazilian imports grew by 140% in the 1993 – 1995 period, as a result of the trade opening policy adopted by the country at the beginning of the decade; in the following years, growth was slow — 2.8% in the 1995 – 2003 period. Nevertheless, the country's imports grew throughout the 1990s and its share in world trade rose from 0.66% to 0.96% during the period. After 2003, imports began to significantly rise again, with an annual rate of 21.1% between 2003 and 2011. In the final three-year period, growth was null.
- Despite continuous growth in the value of Brazilian imports over the last 25 years, the imports to GDP ratio of Brazil oscillated during the period. After a significant increase in the 1990s (from 3.9% to 9.1% between 1990/1991 and 2000/2001), this ratio fell to 8.5% in 2006/2007, rising to 9.7% in 2013/2014.

Table 3.3 - Brazil and Morocco imports: growth rates, shares in world exports and ratio to GDP in selected years

	Annual growth rates (percent)			
	1990/91-2000/01	2000/01-2006/07	2006/007-2013/14	1990/91-2013/14
Brazil	9.8	12.6	12.2	10.7
Morocco	2.7	25.5	6.8	8.5
World trade	5.8	15.5	5.2	7.4
	Imports to GDP ratios (percent)			
	1990/91 average	2000/01 average	2006/07 average	2013/14 average
Brazil	3.9	9.1	8.5	9.7
Morocco	20.2	22.5	30.7	37.1

Source: BACI - CEP II, compiled by Funcex

3.2. Main trade partners of Brazil and Morocco

Brazilian and Moroccan exports, from the point of view of their destination countries, have a moderate level of concentration.

- However, Morocco has a higher level of concentration, as shown by the share of the ten main destination markets in the country's total exports (66.9% against 56.5% in the case of Brazil) and by the Hirschman-Herfindahl Index score (0.082 versus 0.062) in 2013/2014 (Table 3.4).[4]
- In recent years the both countries' exports have shown a tendency towards greater diversification of their markets, reflected in the decline of these concentration indexes since the beginning of the last decade. This decline is greater in the case of Morocco — the share of its ten main exports markets fell from 88% in 2000/ 2001 to the current 67%.

The main export markets of Brazil and Morocco are different: only three countries appear in the lists of the ten main export markets for both countries: the United States, Germany and India.

- China and the United States are the two main destinations of Brazilian exports, accounting for a little less than 30% of these exports in 2013/2014 (18.3% and 11.0%, respectively). However, this result involved an inversion of the positions observed last decade — in 2000/2001, the United States was the main Brazilian export market (24.2%), while China only held the small share of 2.5%. Argentina, now the third most important market, absorbing 7.0% of Brazilian exports, then occupied the second position.
- From the point of view of their geographic scope, Brazilian exports are significantly diversified: the ten main destination markets for these exports include four Asian countries, three South American, two European, and the United States. The total value of Brazilian exports in 2013 - 2014 was distributed among Asia (35%), Europe (25%), Latin America (18%), the United States and Canada (12%), the Middle East and Africa (4% each).
- Spain and France are the two main destination markets for Moroccan exports, accounting together

4. The Hirschman-Herfindahl Index is the sum of squared shares of each market in total exports (imports). A country with a perfectly diversified destination of its exports (imports) will have an index close to zero, whereas a country which exports (imports) to (from) only one market will have a value of 1 (least diversified).

for around 37% of these exports in 2013/2014 (18.8% and 18.0%, respectively). As in the Brazilian case, there was an inversion of the positions of these two markets over the last decade, since France absorbed 30.2% of Moroccan exports in 2000/2001, with Spain being in second position with a share of 12.9%. Brazil is now the third most important market for Moroccan exports (5.5%).

- Moroccan exports are much less diversified than the Brazilian. Of the ten main destination markets, seven are European countries. Of the total value of Moroccan exports, 67% goes to Europe, 11% to Asia, 8% to Africa, 7% to Latin American and 5% to the United States and Canada.

Table 3.4 - Main destinations of Brazil and Morocco exports in selected years (%)

Brazil				Morocco			
	2000/01	2006/07	2013/14		2000/01	2006/07	2013/14
China	2.7	7.5	18.3	Spain	12.9	21.8	18.8
United States	24.2	16.2	11.0	France	30.2	21.1	18.0
Argentina	9.7	8.3	7.0	Brazil	1.1	2.7	5.5
Netherlands	4.7	4.5	5.9	Italy	6.6	5.0	4.2
Japan	4.0	2.8	3.3	Germany	6.4	3.4	3.6
Germany	5.0	5.0	3.3	Belgium-Luxembourg	2.7	3.2	3.6
Chile	2.3	2.7	2.1	United States	5.3	3.5	3.6
Venezuela	1.6	2.4	2.0	India	3.6	3.2	3.3
South Korea	1.3	1.4	1.9	United Kingdom	8.5	4.7	3.3
India	0.5	0.7	1.7	Turkey	0.7	1.1	2.8
Subtotal	55.8	51.5	56.5	Subtotal	78	69.9	66.9
Other countries	44.2	48.5	43.5	Other countries	22.0	30.1	33.1
Total	**100.0**	**100.0**	**100.0**	**Total**	**100.0**	**100.0**	**100.0**
Memo: Total (US$ billion)	59.4	156.6	238.0	Total (US$ billion)	7.5	16.7	2.1
Hirschman-Herfindahl Index (HHI)							
	0.083	**0.052**	**0.062**		**0.132**	**0.105**	**0.082**

Source: BACI - CEP II, compiled by Funcex; own elaboration

Brazilian and Moroccan imports have, from the point of view of the origin of imported products, similar moderate levels of concentration.

- The ten main supplier countries accounts for around 2/3 of imports in both countries (Table 3.5). The shares of the ten largest supplier countries have remained relatively stable during the last fifteen years.
- The estimated concentration of imports in the Hirschman-Herfindahl Index also showed similar levels of concentration in the two countries at the end of the period (0.067 for Brazil and 0.062 for Morocco in 2013/2014), showing a slightly greater concentration of imports in Morocco in 2000/2001 (0.121 against 0.089 for Brazil).

Similar to exports, the main countries of origin of the imports of Brazil and Morocco are also different: only four countries appear in the lists of the ten main markets of both countries: the United States, China, Germany and Italy.

- China and the United States are the main countries supplying products imported by Brazil in 2013 - 2014, with similar shares in the Brazilian market (15.9% and 15.3%, respectively). This situation differs from what was observed at the beginning of the previous decade, when the United States accounted for 24% of Brazilian imports and China for only 2.4%. That year, the second most important supplier of Brazil was Argentina (11.5% of the total); today the country is in third position, with a share of 6.5%.
- The ten main suppliers of Brazilian market in 2013/2014 were the United States, four Asian countries, three European countries, one from Latin America, and an African country. The total value of Brazilian imports in 2013/2014 was distributed among Asia (33%), Europe (25%), the United States and Canada (16%), and Latin America (14%). These percentages are similar to those observed in the case of exports.
- The two main destination countries for Moroccan exports are also the two main countries of origin for its imports: Spain and France, with similar shares (13.9% and 12.8%) in 2013/2014. The positions currently occupied by these two countries differ from what was observed at the beginning of the last decade when France held the first position with a share of 28.5% and Spain, the second, with a share close to the current one (13.4%). The third largest supplier of the Moroccan market in 2013/2014 is China with a share of 7.6%; in 2000/2001 the third position was held by Italy (also with 7.6% of the Moroccan market).
- The ten main suppliers of Morocco are seven European countries, one from Asia, the Middle East, and Africa, and the United States. Of the total value of Moroccan imports, 60% come from Europe, 15% from Asia, 8% from the United States and Canada, and 7% from Middle Eastern countries.

It is worth noting that in 2013/2014 a significant number of countries appeared among the ten main trade partners of Brazil and Morocco, in relation to both exports and imports.

- In the case of Brazil, seven countries stand out in the two trade flows: China, the United States, Argentina, Japan, Germany, South Korea and India. Three countries appear only among the main markets: Chile, the Netherlands and Venezuela; and three are only found among the ten main suppliers: France, Italy and Nigeria.
- In the case of Morocco, six countries are among the ten main import and export partners: Spain, France, Italy, the United States, Germany, and Turkey. Four countries appear only among the main markets: Brazil, Belgium, the United Kingdom and India; and four are only among the ten main suppliers: China, Algeria, Russia and Saudi Arabia.

Table 3.5 - Main suppliers of Brazil and Morocco imports in selected years (%)

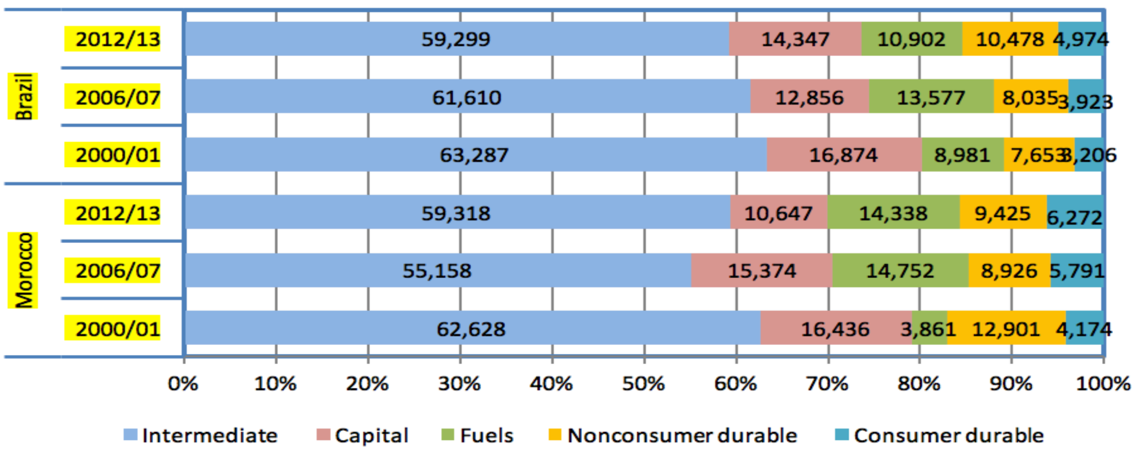
Brazil				Morocco			
	2000/01	2006/07	2013/14		2000/01	2006/07	2013/14
China	2.4	9.0	15.9	Spain	13.4	11.6	13.9
United States	24.0	15.8	15.3	France	28.5	15.9	12.8
Argentina	11.5	8.9	6.5	China	3.1	6.0	7.6
Germany	8.4	7.6	6.2	United States	4.3	5.1	7.3
Nigeria	1.7	4.0	4.0	Saudi Arabia	0.6	6.1	5.5
South Korea	2.7	2.8	3.9	Germany	7.0	5.6	5.1
Italy	3.9	2.9	2.8	Italy	7.6	6.4	5.0
India	0.7	1.7	2.8	Turkey	0.9	2.6	3.3
Japan	5.2	3.8	2.7	Russia	1.1	3.2	3.0
France	3.7	3.4	2.6	Algeria	1.9	2.4	2.7
Subtotal	64.0	60.0	63.0	Subtotal	68.4	64.8	66.2
Other countries	36	40	37	Other countries	31.6	35.2	33.8
Total	**100.0**	**100.0**	**100.0**	**Total**	**100.0**	**100.0**	**100.0**
Memo: Total (US$ billion)	57.7	104.3	233.0	Total (US$ billion)	9.0	28.1	44.6
Hirschman-Herfindahl Index (HHI)							
	0.089	0.058	0.067		0.121	0.063	0.062

Source: BACI - CEP II, compiled by Funcex

3.3. Breakdown of Brazilian and Moroccan trade

The breakdown of Brazilian and Moroccan imports by the level of industrial transformation of the imported products shows the predominance of intermediate goods, which account for around 60% of imports in both countries and in the three periods considered (Figure 3.4). The variations in the shares of the other product classes are not significant and do not indicate any tendency. Capital goods hold the second position, except for Brazilian imports in 2006/2007 and Moroccan in 2013/2014; in these cases, fuels occupied second place.

Figure 3.4 - Breakdown of Brazil and Morocco imports by the end use of the import products

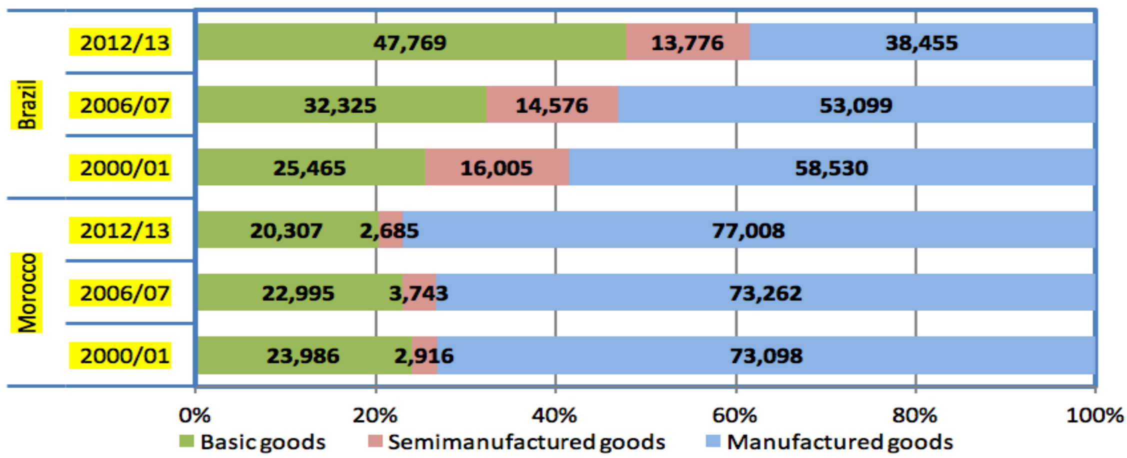


Source: BACI - CEP II, compiled by Funcex.

To the contrary, the breakdown of Brazilian and Moroccan exports by the level of industrial transformation of the exports in the 2000-2014 reveals very different characteristics of the export flows of the two countries (Figure 3.5).

- Manufactured goods accounted for around 3/4 of Moroccan exports and the share of basic goods declined from 24% to 20 during this period.
- In the case of Brazilian exports, manufactured goods, which predominated in the period before the 2008 crisis, although already facing a slight decline, were then overtaken by basic goods. Their share fell by 20 percentage points, declining from 58.5% in 2000/2001 to 38.5% in 2013/2014. Semi-manufactured goods also declined during the period, falling from 16.0% to 13.8%. The increase in the share of basic goods exports is therefore significant, rising from 25.5% to 47.8%. This reflects annual growth rates during the period of 18.3% for basic goods, 10.9% for semi-manufactured goods, and 8.4% for manufactured goods.

Figure 3.5 - Breakdown of Brazil and Morocco exports by the degree of industrial transformation of the export product



Source: BACI - CEP II, compiled by Funcex

Table 3.6 complements this breakdown of Brazilian and Moroccan exports, indicating the ten main (HS 2-digit) chapters of exports in 2013/2014.

- In the case of Moroccan exports, the most important were manufactured goods: electrical machinery and equipment (16.0%, mainly components and parts), articles of apparel and clothing accessories (16.4%), vehicles and parts and accessories (9.0%, mainly passenger cars), fertilizers (7.9%), and chemical products of chapters 25 and 28 (6.0% and 5.7%, mainly phosphorus derivatives). The ten HS chapters also included basic goods: mineral fuels, mineral oils and products of their distillation (5.3%), and food products (edible vegetables – 4.6% and fish and crustaceans, mollusks – 4.1%).
- In the case of Brazilian exports, the most important were basic products: ores, slag and ash (13.7%), oil seeds and oleaginous fruits (9.9%, mainly soya), mineral fuels, mineral oils and products of their distillation (8.3%), meat (6.4%), residues and waste from the food industries, including prepared animal fodder (3.2%), and cereals (2.6%, mainly maize). The ten most important chapters also included semi-manufactured goods — sugars and sugar confectionery (4.8%), and iron and steel (3.9%) — and manufactured goods — boilers, machinery and mechanical appliances (5.4%, mainly turbo-jets, turbo-propellers and other gas turbines and self-propelled bulldozers, angle dozers, etc.), and motor vehicles and parts (5.1%).

Table 3.6 - Main chapters (HS 2-digit) of Brazil and Morocco export products in 2013/2014 (percent)

Brazil exports		Morocco exports	
26 Ores, slag and ash.	**13.7**	85 Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	**16.0**
12 Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants; straw and fodder	**9.9**	62 Articles of apparel and clothing accessories, not knitted or crocheted.	**11.5**
27 Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	**8.3**	87 Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof.	**9.0**
02 Meat and edible meat offal.	**6.4**	31 Fertilizers.	**7.9**
84 Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	**5.4**	25 Salt; sulphur; earths and stone; plastering materials, lime and cement.	**6.0**
87 Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof.	**5.1**	28 Inorganic chemicals; organic or inorganic compounds of precious, of rare-earth metals, of radioactive elements or of isotopes.	**5.7**
17 Sugars and sugar confectionery.	**4.8**	27 Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	**5.3**
72 Iron and steel.	**3.9**	61 Articles of apparel and clothing accessories, knitted or crocheted.	**4.9**
23 Residues and waste from the food industries; prepared animal fodder.	**3.2**	07 Edible vegetables and certain roots and tubers.	**4.6**
10 Cereals.	**2.6**	03 Fish and crustaceans, mollusks and other aquatic invertebrates.	**4.1**
Sub total	**63.2**	Sub total	**75.0**
Memo: Total (US$ billion)	**238.0**	Total (US$ million)	**27.1**

Source: BACI - CEP II, compiled by Funcex.

The results of Table 3.6 also show a high concentration of the export portfolios of both countries: the ten main HS chapters account for 63.2% of Brazilian exports and for 75.0% of Moroccan. The greater concentration of Moroccan exports is confirmed by the Hirschman-Herfindahl Index shown in Table 3.7. However, this table indicates that when exports are analyzed with a higher level of desegregation, classified according to the HS (4-digit) headings, Brazilian exports are a little more concentrated than Moroccan.

Table 7 also shows the evolution of the concentration of both countries' exports over the last fifteen years.

- In the case of Brazilian exports, both the share of the five and ten main HS chapters and the Hirschman-Herfindahl Index (2-digit) indicate an increase in concentration.
- In the case of Morocco, changes in the shares of the main HS chapters do not reveal any tendency in exports concentration, but the Hirschman-Herfindahl Index (2-digit) does indicate an increase in diversification during the period analyzed.

Table 3.7 - Brazil and Morocco export concentration at different HS levels in selected years

	Brazil exports			Morocco exports		
	2000/01	2006/07	2013/14	2000/01	2006/07	2013/14
Share of 5 main chapters (HS 2-digit)	24.1	33.9	43.6	45.1	44.8	50.4
Share of 10 main chapters (HS 2-digit)	44.7	55.4	63.2	76.5	72.0	75.0
Hirschman-Herfindahl Index – HS 2-digit	0.038	0.045	0.055	0.102	0.081	0.072
Hirschman-Herfindahl Index – HS 4-digit			0.039			0.036

Source: BACI - CEP II, compiled by Funcex.

3.4. Trade in services

As observed for trade in goods, Moroccan economy is significantly more open than the Brazilian economy to trade in services. The ratio trade in services / GDP for Brazil was, in 2014, slightly below 5%, while the same indicator for Morocco reached 21% the same year. Brazil's ratio appears to be low when compared to the ones of Latin American and Caribbean (6.8%) and to the group of Upper Middle Income countries (8.3%). On the other side, Morocco´s ratio largely overcomes the ones observed for Sub-Saharian Africa (10.4%) and Lower Middle Income countries (11.6%).

Table 3.8 - Ratio (%) Trade in Services / GDP - Brazil, Morocco and Groups of Developing Countries - 2014

Countries / Groups	Trade in services / GDP
Brazil	4.8
Morocco	21
Latin American and the Caribbean	6.8
Sub-Saharian Africa	10.4
Lower Middle Income countries	11.6
Upper Middle Income countries	8.3

Source: WDI, The World Bank

Brazil´s exposure to trade in services is, in a large measure, related to its imports. In fact, Brazil has traditionally recorded significant deficits in its balance of trade in services. Between 2010 and 2014, these deficits accounted for more than 50% of the country's current account deficit. By contrast, Moroccan position in trade in services has been positive and the current account deficits recorded between 2008 and 2015 are largely due to the evolution of the trade balance of goods.

Brazil has a very small, albeit growing, share of the world exports in services: 0.52%, in 2005, an 0.76%, in 2014 – below Brazil's share in trade in goods (1.2%). Morocco has kept, between 2005 and 2014, a stable share of the global trade in services (around 0.3%), neatly above its participation in the world trade in goods (0.13%, in 2014).

In the case of Brazil, trade in commercial services[5] (both exports and imports) has grown, between 2005 and 2014, at higher growth rates than the ones observed for trade in goods. This is mainly attributable to the performance of imports, which multiplied by four in the period, reaching US$ 86 billion in 2014, but services exports have also outperformed goods exports in the period. As for Morocco, on the contrary, trade in goods grew faster than trade in services between 2005 and 2014, both for exports and imports.

The contrasts between Brazil and Morocco, as far as trade in services is concerned, go beyond the evolution observed in the period under consideration. In fact, the sectoral composition of (commercial) services trade of the two countries also differs widely.

Table 3.9 - Brazil and Morocco composition (%) of exports of commercial services – 2005 – 2014

	Brazil		Morocco	
	2005	2014	2005	2014
Transport	23	15	15	20
Travel	28	18	53	46
Finance and insurance services	5	5	1	1
Other Commercial Services	45	63	32	33

Source: WDI, The World Bank

Brazilian exports of commercial services have been growingly dominated by "other commercial services" (OCS), which include a wide range of sectors and subsectors (telecommunications, computer and information services, business, professional and technical services, construction services etc.). These services accounted, in 2014, for 63% of Brazilian exports of services, seconded by travel (18%) and transport (15%).

The largest share of OCS exported by Brazil is composed of "other business services" (OBS), including many professional and technical services, juridical, accounting and consultancy services, etc. OBS represented, in 2015, 78% of the "other commercial services" exported by Brazil.

In the case of Morocco, travel (tourism) represents around 50% of the exports of commercial services, although this share has shrunk between 205 and 2014. OCS ranks second, with 1/3 of Moroccan services exports in 2005 as well as in 2014, and transport has increased its share from 15%, in 2005, to 20%, in 2014. The composition of OCS is, in the case of Morocco, less concentrated than for Brazil, as OBS represented, in 2014, only 33% of total OCS exports, slightly after telecommunication, computer and information services (34%).

Brazilian imports of commercial services also shows a strong, although smaller than in exports, participation of OCS, representing 50% of the total, in 2014. Among OCS, OBS (68%) and charges for the use of intellectual property (12.5%) are the main sectors contributing to Brazil's imports in 2014. However, the most relevant evolution is the growing share of travel (tourism) in the total of commercial services imports, evolving from 22%, in 2005, to 30%, in 2014.

5. Which exclude government services.

Table 3.10 - Brazil and Morocco composition (%) of imports of commercial services – 2005 – 2014

	Brazil		Morocco	
	2005	2014	2005	2014
Transport	24	17	51	47
Travel	22	30	20	18
Finance and insurance services	7	3	3	2
Other Commercial Services	48	50	27	33

Source: WDI, The World Bank

Morocco´s imports of commercial services concentrate on transport (51%, in 2005, and 47%, in 2015) and in OCS (27%, in 2005, and 33%, in 2014). The most relevant evolution in the considered period was precisely the growing share of OCS (and, within OCS, of OBS) in the total imports of commercial services by Morocco.

3.5. FDI profiles

FDI has been playing a very relevant role in Brazilian and Moroccan economic development. In the case of Brazil, over the last six decades FDI has been especially attracted by the large domestic market – but also by government policies – and directed preferentially towards industrial (and more recently services and natural resources intensive) sectors. In Morocco, FDI gained traction during the second half of the 1980's, when liberalization policies were implemented in the country, particularly following the privatization process of the 1990's.

Table 3.11 - Brazil and Morocco FDI Flows (US$ million)

	Brazil		Morocco	
	FDI inflows	FDI outflows	FDI inflows	FDI outflows
2010	83,749	22,060	1,574*	589*
2011	96,152	11,062	2,568*	179*
2012	76,098	-5,301	2,728*	406*
2013	53,060	-1,180	3,298*	332*
2014	73,086	2,230	3,561*	436*
2015	64,648	3,072	3,162*	649*

Note: *Asset/liability basis. Source: Unctad, WIR 2016

3.5.1. FDI in Brazil

The 1980s crisis practically wiped Brazil off the FDI map. However, during the 1990s, especially from the middle of the decade on, Brazil once again become a relevant FDI destination among developing countries, encouraged by the structural economic reforms and by the privatization program implemented during that period.

During the first decade of the current century, Brazil attracted significant amounts of FDI inflows, which continued to grow in 2010/2011. Since then, FDI annual inflows have been oscillating, but the country continues to receive large shares of global FDI. In 2014, Brazil occupied the fourth position in the world ranking of FDI receivers. In 2015, at the height of the domestic economic crisis, the country was in the eighth position in that ranking.

FDI in the manufacturing sectors sought access to Brazil's internal market especially in sectors that produced durable consumer goods, mechanical and electric equipment. From the late 1960s onwards, transnational companies increased their investments in these 'non-traditional' sectors, maintaining a share of close to 50% of total capital of the manufacturing industry. The share of foreign capital was particularly high in the more capital and technology-intensive industrial sectors (transportation equipment, electrical and mechanical equipment, plastics, rubber and pharmaceuticals).

The new wave of FDI inflows in the 1990's introduced important changes in the traditional pattern of FDI directed to Brazil: on one hand, the largest part of these investments targeted services sectors that were being privatized. On the other hand, during this period countries that previously had only had a small share in the origin of flows directed towards Brazil gained prominence (Spain, Portugal and the Netherlands).

Until the beginning of the 1990s, FDI to Brazil concentrated on industry. Since then, there has been a diversification in terms of sectors targeted by FDI: services (energy, telecommunications, and financial services) and, more recently, mining and oil & gas. The most noticeable trend in recent years refers precisely to the growing participation of extractive industries (mining and oil & gas) in the total FDI received by Brazil. In the manufacturing sectors, metallurgy, food products and oil derivatives are among the top ranked as far as FDI flows are concerned, while in services financial services, retail & wholesale trade, and building have the highest share in total FDI to Brazil.

The EU is by far the most important source of FDI directed to Brazil, with a share of more than 55% of total flows in recent years. The Netherlands, Luxembourg and Spain have been the most important EU investors in this period. But the first two of these EU countries are mostly intermediate countries in terms of the origin of FDI in Brazil, due to their special tax regimes.

The United States is also a very relevant origin of FDI in Brazil, holding the second position as the origin of FDI in Brazil, after the Netherlands. However, the most relevant recent trend related to FDI inflows to Brazil is the growing weight of 'newcomers' – countries that used to have only a marginal share of these flows, but which have been gaining weight in total FDI inflows in the current decade. Latin American countries, like Chile, despite still only have a small share of these flows are amongst the newcomers. Norway has also increased its share in FDI flows to Brazil, attracted by new opportunities in the gas and oil sector, as well as related activities.

Table 3.12 - Brazil FDI inflows, by activity and country (annual average 2009-2011, 2012-2014 and 2015)

	2009-2011	2012-2014	2015
By sector (%)			
Industry	44.43%	35.58%	38.80%
Agriculture and mineral extraction	22.59%	14.66%	14.68%
Services	32.98%	49.76%	46.52%
By country of origin (%)			
Netherlands	17.55%	17.79%	20.38%
USA	7.81%	16.98%	11.57%
Luxembourg	8.55%	11.52%	12.95%
Spain	9.63%	6.31%	11.27%
Germany	3.02%	2.20%	6.95%
Japan	10.06%	4.86%	3.72%
France	7.17%	4.58%	0.10%
Norway	2.84%	1.16%	4.94%
Italy	-0.21%	1.81%	3.43%
United Kingdom	3.98%	2.96%	3.06%
Switzerland	6.18%	5.77%	2.17%
Chile	2.34%	4.36%	2.03%
Canada	3.18%	2.67%	1.79%
Cayman Islands	0.30%	0.87%	0.95%
Portugal	-0.12%	0.98%	0.67%
Bermuda	1.51%	0.22%	0.36%
Bahamas	-0.14%	0.54%	0.33%

Source: Banco Central do Brasil

But probably the most noticeable trend in FDI flows to Brazil in the recent period has been the growth of Chinese investments, mainly made through the Caribbean 'fiscal paradises.' While this path makes it difficult to assess the volume of Chinese investment, it is possible to say that these investments have shown a steady growth from 2010 onwards and that they are strongly concentrated in natural resources-intensive sectors, such as energy, oil and mining. Especially in the case of oil and electrical energy, the bulk of Chinese investments have been made by state-owned companies.

3.5.2. Brazilian FDI outflows

In the last ten years, the main novelty related to FDI flows is the fact that Brazilian companies vigorously increased their productive investments abroad, particularly from 2006 onwards. However, the recent domestic economic crisis, deepened in 2015, has forced a slowdown in this trend.

In contrast with some Asian and even some other Latin-American countries, Brazil's participation as a foreign investor is negligible. More than anything else, this fact reflects the low degree of 'extroversion' of Brazilian companies and the fact that they have been, for decades, almost exclusively dedicated to supplying the domestic market.

The opening of trade and the shift in the investment regime seen in the 1990s brought no significant change to this dimension of Brazilian companies´ behavior and strategies. However, during the first decade of the twenty-first century this picture gradually changed, as a few Brazilian companies began to internationalize their operations through investments, going beyond exports. The first half of the 2000s saw an increase in Brazilian foreign investment in oil – with the internationalization of Petrobras – and in the metallurgical chain, with the expansion of mining companies as well as steel firms in the United States – in this case to avoid anti-dumping rights being imposed on Brazilian exports. In this same period, Brazilian companies made some important investments in Argentina, in different sectors such as oil, textiles, and steel.

The stock of outward Brazilian FDI almost tripled between 2000 and 2010, growing from US$ 51.9 to US$ 149.3 billion. From 2010 to 2015, these outward flows continued to increase, although at a more moderate pace. In addition to Caribbean tax heavens and the already mentioned European countries (Netherlands and Luxembourg), the stock of FDI flows originating in Brazil is concentrated in Canada, Spain, Belgium, Chile, and Portugal. It is worth noticing the growing, but still modest, share held by Latin American countries (Argentina, Uruguay, Peru, Panamá, Colombia, Venezuela, Mexico, and Chile) in the ranking of countries of destination for FDI flows from Brazil.

Table 3.13 - Brazil FDI outward stock (main destinations by country – 2014)

Country	Share
Netherlands	34.26%
Luxembourg	24.77%
Canada	15.41%
Spain	7.01%
Belgium	4.25%
Chile	3.32%
Portugal	2.95%
Mexico	1.60%
Venezuela	1.08%
Bolivia	0.93%

Source: IMF, IMF-Data, CDIS,-2015.

3.5.3. FDI in Morocco

Morocco has been one of the preferred destinations of FDI in MENA (Middle East and North African) countries particularly from the 1990s onwards, following a period of implementation of several economic liberalizing reforms, which combined trade liberalization and the reform of the FDI regime (Bouoiyour, 2003).

According to the OECD (2010), Morocco's solid economic performance and ambitious privatization program, which continued to be implemented in the 2000s, has attracted high volumes of FDI. Fluctuations in FDI in the first half of that decade (2000/2005) reflected mainly the opportunities offered by the privatization process. From 2005/2007 foreign investment flows presented a more steady growth, reaching a new record in 2007 (US$ 2.8 billion). FDI in Morocco, as in the rest of the world, shrunk during the 2008/09 international economic crisis.

The recovery of FDI inflows to Morocco began in 2010 and was sustained until 2014. The country jumped from the 14th largest recipient of FDI in Africa in the mid-2000s to the third position in 2014. "The robust growth of FDI in the country was encouraged inter alia by the pursuit of reforms aimed at improving the business environment the launch of infrastructure projects, and the new sectoral policies…" (WTO, 2015).

The recent FDI cycle in Morocco was mainly directed at the industrial sector, increasing the share of this sector from 15.8% in the average of 2009-2011 inflows to 31% in 2012-2014. The rapid growth of some industrial segments fostered by industrial policies, such as automobiles, aeronautics and electronics attracted FDI, which in turn contributed to the increase in domestic production.

Launched in 1990, the privatization program transferred state companies to the private sector, with a high participation of foreign capital. During this period, FDI was mainly directed to sectors that were the privatization program: tourism, telecommunications, energy, and financial services. This trend led to a high share of the services sector in FDI inflows in Morocco. Increased foreign interest in the industrial sector is more recent and is a consequence of the new set of economic and industrial policies implemented by the Moroccan government during the last few years, aimed at improving the business environment and developing industrial segments.

Table 3.14 - Moroccan FDI inflows by activity and country (Annual averages 2009-2011, 2012-2014 and 2015)

	2009-2011	2012-2014
By sector (%)		
Industry	15.80%	31.16%
Agriculture	3.46%	9.74%
Services	77.83%	54.68%
Others	2.98%	4.39%
By country of origin (%)		
France	48.91%	35.98%
United Arab Emirates	9.75%	14.55%
Switzerland	4.37%	5.52%
United Kingdom	3.47%	4.92%
Saudi Arabia, Kingdom of	2.81%	6.42%
Luxembourg	0.44%	3.21%
United States	2.83%	5.73%
Germany	2.38%	2.37%
Spain	5.98%	3.82%
Netherlands	1.45%	2.79%
Mauritius	0.23%	0.87%
Belgium	3.55%	0.94%
Qatar	0.48%	1.34%
Other countries	13.45%	11.58%

Source: WTO (2015,) Morocco TPR.

For historical reasons, France owns the largest share of FDI stock in Morocco and continues to be one of the main investors in the country. French presence in the Moroccan economy was challenged in the 1970s, when the Morocco government passed the 'Moroccanization' Decree (1973), which restricted foreign ownership of certain industrial, trade, and services activities to no more than 49%. According to Bouoiyour (2003), the "main purpose of this policy was political rather than economic – to reduce the dominant role of French firms in the Moroccan economy." Activities falling under the "Moroccanization" law included textiles, clothing, footwear, leather products, travel goods, toys, fish canning and preserving, fertilizers, edible oils, vegetables fibers and processed fruit and vegetables. As expected, this law had very negative impact on foreign investment, which remained at low levels until the beginning of the 1990s.

The Structural Adjustment Program (SAP) adopted in 1983, under the aegis of the IMF and the World Bank, and the implementation of new trade and foreign investment policies combined to eliminate the 1973 'Moroccanization' Decree and contributed to build an enabling environment for the attraction of FDI over the next decade.

France remains Morocco's main foreign investor, far ahead of the United Arab Emirates, Switzerland and the United Kingdom. Its average share was almost 50% in 2009-2011, which fell to 36% in 2012-2014. United Arab Emirates and Saudi Arabian investments in Morocco have been on the rise during recent years, gaining share in the FDI in the country. Although China is still a very small investor in Morocco, expectations for the rise of Chinese FDI in the Moroccan economy grew after the signing of a joint statement on strategic partnership on the occasion of the official trip of the Moroccan king, Mohammed VI, to China in May, 2016. Chinese FDI in the country rose by 94% in 2015, reaching US $40 million, moving from the 32th position in 2013 to the 17th in 2015.

3.5.4. Moroccan FDI outflows

During the second half of the 2000s, Morocco became a more active investor abroad. In 2010, the country's stock of outward investment reached US $1.9 billion – according to Unctad's data – rising from US $402 million in 2000. Between 2010 and 2015 this figure increased 35%, reaching US $4.6 billion. Sub-Saharan African countries are the top priority of Morocco's current outward investment policy. Although France is still the main destination of Moroccan FDI stock abroad, the country's stock in African countries has increased over the past ten years. Senegal, Niger, Burkina Faso and Mali were the sub-Saharan African countries with the largest cumulative FDI stocks in 2014, according to IMF-Data.

Table 3.15 - Moroccan FDI outward stock (main destinations by country – 2014)

Country	Share
France	70.32%
Senegal	6.54%
Niger	6.34%
Burkina Faso	5.03%
Mali	4.20%
Italy	2.82%
India	1.72%
Belgium	1.65%
China, P.R.: Mainland	1.52%
Togo	1.31%

Source: IMF, IMF-Data, CDIS,-2015.

4. TRADE AND INDUSTRIAL POLICIES IN BRAZIL AND MOROCCO

Brazil and Morocco share a common aspiration: the development of diversified and sophisticated industrial sectors. To this end, both countries have been implementing a wide set of industrial and trade policies that have relevant impacts on market access conditions for bilateral trade.

The fragmentation of the production process and the consolidation of global value chains (GVCs) in many sectors have been changing the map of trade and investment flows. Capturing opportunities created by this phenomenon has been one of the main goals driving the implementation of trade and industrial policies in many countries.

Brazil and Morocco adopted different approaches towards their respective insertions in the global value chains during the last ten years. While Brazil implemented a wide range of industrial policy mechanisms aimed at attracting investments to the consolidation of domestic production chains, Morocco sought to develop specialization in some sectors and activities, resulting in a more effective participation in GVCs.

Furthermore, Morocco has been intensifying its agricultural policy with the aim at making the country's "agriculture a driver of economic and social development" (WTO, 2015). Although in the FDI arena both countries adopt quite liberal approaches, the frequent regulatory reforms and changes in industrial policies also calls for bilateral instruments that mitigate uncertainties and facilitate investments.

4.1. Moroccan industrial and trade policies: main trends

Moroccan industrial and trade policies oscillate between providing sectorial-targeted incentives and horizontal instruments to stimulate industrialization and exports.[6] As in Brazil, the government opened the economy in the 1990s, reducing import tariffs, licensing requirements and reduced credit incentives to exports. By the end of that decade, the government had introduced several selective investment promotion schemes, aimed at promoting structural transformation, mainly through investment subsidies for the textile and automotive sectors.

During the last ten years, Morocco launched three industrial development plans. The Emergence Plan, presented in 2005, was followed by the National Pact for Industrial Emergence (PNEI) announced in 2009, which targeted the development and modernization of six key industrial sectors: aeronautics, automotive, agroindustry, offshoring, textiles, and pharmaceutics. Seeking to accelerate industrialization in some sectors, the Moroccan government launched a new industrial policy in 2014: the Industrial Acceleration Plan (PAI), for the period 2014-2020.

The new plan aims to continue supporting the development of sectors like the automotive and aeronautics, while pursuing the growth of more traditional sectors, such as textiles and pharmaceutics. Indeed, in some of this sectors, Morocco has succeed in deepening its integration in GVCs.

With a budget of 20 billion dirhams (around US$ 2.1 billion) the Industrial Development Fund has been set up to support the consolidation and modernization of industrial plants and to develop the ability of local industry to replace imported products.[7] This fund finances three main priorities: the provision of integrated production infrastructure for investors, subsidies, and other incentives and training programs.

6. See: http://www.worldbank.org/content/dam/Worldbank/document/MNA/mena_jobs_or_privileges_chap3.pdf
7. See WTO (2015) and http://www.mcinet.gov.ma/~mcinetgov/en/content/industrial-acceleration-plan-2014-202

From 2009 to 2012, the Moroccan government progressively introduced tariff reforms providing for the gradual reduction of the applied tariffs for all industrial products. Although there has been a considerable decline in the level of these tariffs, it still remains relatively high.[8] However, Morocco has negotiated FTAs with most of its largest trade partners, having liberalized the majority of its industrial goods imports in these preferential pacts.

In the agricultural sector, Morocco has launched the Green Morocco Plan 2008-2020 (PMV), which, as mentioned above, aims to enhance agricultural productivity, boost employment and rural incomes, increase international competitiveness, and improve sustainability and environmental protection. To implement this program, the share of the Moroccan Government's investment budget allocated to agriculture rose from 4% in 2008 to 13% in 2014 and 2015.[9]

Following tariff liberalization for industrial products, the Moroccan government implemented a tariff reform for agricultural products, reducing average tariffs by one third, from 44.5% in 2009 to 27.4% in 2015. Differently from the industrial sector's preferential trade negotiations, the liberalization of agricultural product imports in Morocco's negotiated FTAs was limited. Moreover, the commitments established in the country's FTA with the US – to extend to the partner any other better treatment accorded in trade negotiations with other partners – impose limitations on Morocco's ability to offer concessions in terms of market access to agricultural product imports.

4.2. Brazilian industrial and trade policies: recent developments

Until the beginning of the trade liberalization process in 1988, the tariff structure in place in Brazil was roughly the same as the one implemented 30 years earlier in 1957, when the import substitution strategy was at its initial phase. At the end of the 1980s, liberalization began cautiously by eliminating tariff redundancy, suppressing certain surcharges applicable to imports and partially eliminating special tax regimes applied to imports. These measures decreased the average nominal tariff rate from 57.5% in 1987 to 32.1% in 1989.

Unilateral trade liberalization was deepened in 1990 and concluded at the end of 1993, eliminating the extensive range of non-tariff border barriers and reducing the average tariff to around 13%. In 1994, when the 'Real Plan' was implemented to fight hyperinflation, certain additional tariff reductions were applied and the average nominal tariff rate fell to 11.2% (Motta Veiga and Rios, 2015).

Implemented during a period of deep macro-economic crisis, with domestic demand down and the real exchange rate quite high, trade liberalization had little impact on the import flows and practically did not affect domestic demand until 1994. It was only with the implementation of the 'Real Plan,' in July 1994 and the subsequent appreciation of the national currency and the expansion of domestic demand, that the effects of trade liberalization were widely felt in the domestic market. From then onwards, the opening of trade began to work as an inter and intra-sector selectivity factor, discriminating between companies and sectors based on their capacity to adapt to a competitive environment.

On the aggregated level, this development increased protectionist pressures, which found backing in the macro-economic concerns of policymakers. There was an effective, although moderate, reversal of the trade opening process: in 1997, the average nominal tariff rate was 4.5 percentage points above that recorded in 1994. Furthermore, from the mid-1990s onwards the appeal to instruments of contingent

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8. See WTO (2015).
9. Idem.

protection became more intense, primarily in terms of the antidumping mechanism. Currently the simple average nominal tariff rate is 13.7%, with the maximum rate of 35% applied for automobiles, textiles, toys, furniture and shoes, rates around 18% for electronic goods, 14% for capital goods and from 4% to 12% for inputs and raw-materials.

Despite some occasional increases in applied tariffs by Brazil, there has been no relevant inflection in trade policy since the trade reform of the 1990s. The shift towards a more protectionist stance in the trade policy began to appear at the beginning of 2010, following a sharp increase in Brazilian imports. Since then the Brazilian Government became more sensitive to private sector pressures, introducing some protectionist measures, although in a selective and occasional manner.

Included in this new industrial policy was the expansion of public credit through the Brazilian Development Bank (BNDES) with subsidized – and even negative in real terms – interest rates; dissemination of domestic content requirements for access to official credit and tax incentives or to participate in public bidding in areas such as oil and gas; broad preferences for local companies in government procurement; the use domestic taxes to discriminate against imports, etc.

In the area of trade negotiations, the reflection of these new protectionist winds has been the lack of interest in moving forward with 'in progress' initiatives such as the EU-MERCOSUR free trade negotiations. As far as trade and industrial policy measures are concerned, it seems clear that the broad array of instruments mobilized by the government were at most able to alleviate the short-term situation of some sectors. Many of these policies are being challenged by the European Union and Japan under the WTO Dispute Settlement Mechanism. On the other side, the fiscal space to support industrial policies involving the significant use of subsidies is much narrower nowadays.

In such a scenario, the new government is pointing to a shift in the strategy of the trade and industrial policies from the management of short-term problems and sectorial difficulties – whose instruments remain in place – to issues that are predominantly 'horizontal,' affecting all industrial sectors. Regarding the trade policy agenda, the new winds in Brazil point to a more assertive stance towards trade negotiations. The negotiations of preferential trade agreements with relevant partners are at the top of the priority list of Brazilian trade policy agenda.

4.3. Tariff profiles of Brazil and Morocco

All the tariff lines in Brazil's and Morocco's WTO lists of commitments are bound.[10] Bound tariffs are very high in both countries, with the simple averages of this tariffs being higher in Morocco (41.3% versus 31.4% in Brazil) (Table 3.13).[11] These measures are particularly high in the case of agricultural products (54.4% in Morocco and 35.4% in Brazil), but they are also significant for non-agricultural products (39.3% and 30.8%). The level of protection currently applied to imported products, made explicit by the applied tariffs, is significantly lower than defined by the final bound tariffs.

The simple average [from now on, average] applied tariffs of Brazil and Morocco are similar –– 13.5% and 11.2%, respectively. However, this similarity covers significant differences between the levels of protection for the distinct classes of products in the two countries, reflecting the different orientations of their trade policies:

10. The WTO agreement includes commitments by countries to bind their tariff rates at an agreed-upon maximum rate for each import product category. This tariff is called bound tariff rate. However, some countries, especially those with higher bound tariffs, decide to set their actual tariffs at lower levels than their bound rates. The actual tariff rate is called the applied tariff rate.

11. All the tariffs in both countries are ad valorem.

- The average applied tariff of agricultural products in Morocco (27.4%) is significantly higher than that of Brazil (10.2%); on the other hand, the average tariff of non-agricultural products of Brazil is greater (14.1%, against 8.7% in Morocco).
- These differences are also shown in the structure of the applied tariffs: (i) 74% of the tariff lines related to non-agricultural products are less than 10% in Morocco; (ii) this percentage is 33% in Brazil, where tariffs are concentrated in the 10% and 25% bands (53% of tariff lines), and 14% of tariffs are higher than 25%.

The calculation of the average weighted tariffs with HS six-digit import flows in general results in inferior percentages than those associated with simple average tariffs, with the exception of Brazilian agricultural products, whose trade weighted average (12.0%) is greater than the simple average (10.2%).

Table 3.13 - Tariff summary

Tariff summary						
	Brazil			Morocco		
	Total	Ag	Non-Ag	Total	Ag	Non-Ag
Simple average applied	13.5	10.2	14.1	11.2	27.4	8.7
Trade weighted average (2013)	10.1	12.0	10.0	10.1	25.6	8.1
Imports in billion US$	238.9	11.2	227.7	45.6	5.1	40.5

Frequency distribution				
	Agricultural products		Non-agricultural products	
	Brazil	Morocco	Brazil	Morocco
Duty-free	7.9	-	5.6	-
0 ≤ 5	6.4	34.3	14.4	64.9
5 ≤ 10	57.1	13.4	12.7	9.1
10 ≤ 15	13.8	-	27.5	-
15 ≤ 25	13.3	16.0	25.8	25.7
25 ≤ 50	1.4	30.0	14.0	0.3
50 ≤ 100	0.2	3.4	-	-
> 100	-	2.8	-	-

Source: World Trade Association. Tariff Profiles. [http://stat.wto.org/TariffProfile/WSDBTariffPFReporter.aspx?Language=E]

Table 3.14 shows the average and maximum tariff for 22 product groups.

- In Brazil and Morocco, the average applied tariff is lower than the maximum tariff in all groups with the exception, in both countries, of the clothing group.
- The highest average tariffs in Brazil are Clothing (34.9%), Textiles (23.3%), Transport Equipment (18.6%), Dairy Products (18.3%), Beverages & Tobacco (17.0%), Sugars and Confectionery (16.5%), Leather, Footwear, etc. (16.0%).
- In the case of Morocco, the highest tariffs are observed in relation to Animal Products (73.9%), Dairy products (51.0%), Beverages & Tobacco (36.5%), Fruit, Vegetables, Plants (26.0%), Clothing (24.3%), Cereals & Preparations (22.7%), Sugars and Confectionery (19.3%), Coffee, Tea (17.5%), Wood, Paper, etc. (15.3%).

- The average applied tariff of Morocco is higher than in Brazil in all the groups of agricultural products and food products (with the exception of cotton); while the average applied tariff of Brazil is higher in all the groups of non-agricultural products (except for wood, paper, etc.).

Table 3.14 - Tariffs by product groups

Product groups	Brazil		Morocco	
	AVG	Max	AVG	Max
Animal products	8.2	16	73.9	200
Dairy products	18.3	28	51.0	100
Fruit, vegetables, plants	10.2	55	26.0	40
Coffee, tea	13.3	20	17.5	40
Cereals & preparations	10.6	20	22.7	170
Oilseeds, fats & oils	7.9	30	10.3	50
Sugars and confectionery	16.5	20	19.3	50
Beverages & tobacco	17.0	27	36.5	49
Cotton	6.9	10	2.5	3
Other agricultural products	7.8	20	7.7	49
Fish & fish products	10.3	32	14.2	50
Minerals & metals	10.0	35	8.9	25
Petroleum	0.1	6	14.3	25
Chemicals	8.2	18	5.4	25
Wood, paper, etc.	10.6	18	15.3	25
Textiles	23.3	35	8.9	25
Clothing	34.9	35	24.3	25
Leather, footwear, etc.	16.0	35	14.8	25
Non-electrical machinery	12.9	35	4.4	25
Electrical machinery	14.1	25	6.0	25
Transport equipment	18.6	35	9.5	25
Manufactures, n.e.s.	15.2	35	4.8	25

Source: World Trade Association. Tariff Profiles. [http://stat.wto.org/TariffProfile/WSDBTariffPFReporter.aspx?Language=E]

4.4. Main preferential trade agreements in force

Brazil was a founder of the General Agreement on Trade and Tariffs (GATT) in 1948, and ever since has maintained its preference for multilateralism in relation to the country's integration in world trade. Even though Brazil engaged in the open regionalism wave of the 1990s, with the creation of Mercosur, the country has not succeeded in concluding free trade agreements with large economies.

Pursuing a different strategy, Morocco adhered to GATT in 1987 and engaged a few years later in preferential trade negotiations with developed economies, including the United States, and European countries from the EU and EFTA. The country has also negotiated trade agreements with its North African neighbors, other Arab countries and Turkey. Morocco is one of the countries with the largest number of bilateral and regional free trade agreements.[12]

12. See WTO (2015).

4.4.1. Brazil in the world of preferential trade agreements

Brazil has been lagging behind in the race to negotiate preferential trade agreements that have dominated the international trade system since the beginning of the 1990s. However, it had an early experience of regional trade integration through its participation in LAIA (Latin American Integration Association), which has 13 members and is a Partial Scope Agreement, with fixed preferences granted in the form of regional or bilateral commitments.

In a more ambitious move, in parallel to the implementation of a broad unilateral trade reform in 1991-1993, Brazil actively participated in the creation of Mercosur, a preferential trade agreement intended to be a customs union between Argentina, Brazil, Paraguay, and Uruguay, with free circulation of goods, services, capital and labor. The agreement, signed in 1991, required profound coordination efforts in relation to each member state trade and economic policies, which in turn revealed limitations in regard to the implementation of the agreement's provisions and in their ability to coordinate policies.

Nowadays, Mercosur is a free trade area for goods (with the exception of sugar and vehicles) and a very imperfect customs union. There are also commitments to the liberalization of services, but these are not fully in force. Although the block was able to develop integration commitments in many other social and political aspects, it failed to achieve its ambition in the economic arena.

The agreement fostered the increase of intra-bloc trade until the end of the 1990s, but since then desynchronized economic cycles in each of its members and insufficient coordination of trade policy instruments have caused setbacks in the integration process. The share of intra-bloc trade in each country's foreign trade flows has been declining in recent years.

In 2006, Venezuela joined Mercosur. In its accession protocol the country negotiated an implementation schedule for its commitments with a deadline of August 2016. Mercosur partners are in the process of discussing the future role of Venezuela as a member of the bloc, since the country has been unable to fulfill its implementation commitments.

Intended to be a customs union, Mercosur members decided to negotiate external trade agreements as a bloc, but since its inception the bloc has not been able to implement preferential trade agreements with countries with large domestic markets. In addition to the free trade agreements signed with South American countries (Bolivia, Chile, Colombia, Ecuador, Peru and Venezuela), after a long period of negotiations, and with Israel, the other trade agreements in force are very limited in its scope (Mexico, the South African Customs Union and India). There are also FTAs negotiated with Egypt and Palestine that are not in force yet.

During the 1990s, Brazil, together with its Mercosur partners, engaged in ambitious trade negotiations with relevant partners – the Free Trade Area of the Americas (FTAA), encompassing 34 countries, and with the European Union (EU). The FTAA negotiations were abandoned in 2003, while those with the EU were halted in 2004. Although they resumed in 2010, negotiations are still in progress.

Markwald (2014) compares the preferential trade agreements signed by Brazil and by other ten emerging countries to conclude that the country is, together with South Africa, the one with the fewest agreements notified to the WTO.

More recently, the perception that Brazil has been lagging behind in terms of the country's integration in the global value chains and the need to count on exports to recover economic growth has been fostering the domestic debate about the need to open up the economy and that this should be done through the negotiation of PTAs. A new agenda for trade negotiations was announced in 2015, which was maintained by the new government. It sets as its main priorities the conclusion of the EU-Mercosur Agreement and of negotiations to enlarge and deepen the existing agreement between Brazil and Mexico. The opening of negotiations with other countries – Canada, the EFTA and Central America countries – is also envisaged in this strategy.

4.4.2. Moroccan preferential trade agreements

In the mid-1990s, Morocco engaged in several preferential trade negotiations with its trading partners, including the EU, the European Free Trade Association (EFTA) and the Arab countries in the Greater Arab Free Trade Area (GAFTA). In the years 2000s, the United States and Turkey were added to the list of Moroccan PTAs.

The EU-Morocco Association Agreement was signed in 1996, coming into force in 2000. The agreement was limited to trade in industrial goods, with a 12-year transition period for the phasing out of tariffs. In 2012, an EU-Morocco Agreement on agricultural and fisheries products came into force. Since March 2013, the EU and Morocco have been engaged in the negotiation of a Deep and Comprehensive Free Trade Agreement (DCFTA), which will be part of the existing Euro-Mediterranean Association Agreements and will cover a wide range of areas.[13]

Almost simultaneously with the negotiations with the EU, Morocco concluded an Association Agreement with EFTA, which covered only trade in goods. The agreement was signed in 1997 and has been in force since 2000. Like the agreement with the EU for industrial products, the transition period was 12 years, but unlike that agreement agriculture products were negotiated on a bilateral basis with each EFTA member.

The Morocco-US free trade agreement was signed in 2004, coming into force in 2006. This is a comprehensive agreement, encompassing market access for industrial and agricultural goods; services; telecommunications and electronic commerce; investment; intellectual property rights; and government procurement; as well as having chapters on labor and the environment. It is the most comprehensive FTA negotiated by Morocco in terms of its thematic scope. By the end of 2015, the bulk of bilateral trade in goods with the US was already negotiated duty free (95.5% of tariff lines); while with the EU, the share of duty-free lines in total trade was a little lower (91.1%).

In its FTA with the US, Morocco agreed that in the event that it negotiates an agreement with any other trading partner that results in the application of a customs duty that is below the one set out in the Tariff Schedule of Morocco, the country shall immediately apply the lower customs duty that results from this new mechanism to imports of that good from the US. This commitment applies for a specific list of agricultural products subject to tariff quotas, as exceptions to free trade.

In 1997, Morocco took part in the creation of the Greater Arab Free Trade Agreement (GAFTA), under the Arab League. The agreement, implemented in 2005, covers trade in goods originating from its 18 members, with the exception of meat, cereal, soybeans and their byproducts covered by the Morocco-US FTA, which included the provision mentioned above.

13. See http://ec.europa.eu/trade/policy/countries-and-regions/countries/morocco/

The Agadir Agreement brought together four GAFTA members (Egypt, Jordan, Morocco and Tunisia) with the aim of deepening their integration commitments. The agreement came into force in 2007, establishing the elimination of all import duties and any taxes with an equivalent effect. The rules of origin provide for the diagonal accumulation of origin for products manufactured jointly in EU Member countries, the EFTA countries and in Turkey (Pan-Euro-Med), with the exception of agricultural and agro-industrial products that have not yet been liberalized between the EU and each of the parties to the Agreement (WTO, 2015).

Besides the Agadir Agreement, Morocco negotiated an FTA with another GAFTA member – the United Arab Emirates (UAE). This agreement has not been notified to the WTO, but came into force in 2003. Since 2005, Morocco grants duty free access to goods from UAE, with the exception of the agricultural goods covered by the preferences erosion clause negotiated with the US. In addition, the Agreement established the dismantling of import duty and equivalent charges at the rate of 10% per annum, compared with the rate applied under the framework of the Arab League.[14]

To complete the overview of Moroccan free trade agreements there is the FTA with Turkey, in force since 2006, covering mainly industrial products and some agricultural products, partially liberalized through tariff-quotas. The implementation period, of ten years, ended in 2015, with all industrial products being traded duty-free.

In November 2004, Mercosur and Morocco signed a Framework Agreement on Trade, which set as its objectives the strengthening of bilateral relations, the expansion of bilateral trade, and the establishment of conditions and mechanisms to negotiate a FTA. As a first step in that direction, the parties agreed to conclude an Agreement of Fixed Preferences, which would be expanded through periodic rounds of negotiation. There was also a commitment to define criteria to negotiate a bilateral FTA respecting those criteria.

In 2008, Brazilian government established a consultation process with the private sector in order to identify a list of products that could be of Brazilian interest to be negotiated in this agreement. Nevertheless, the result of this dialogue was never publicized and the negotiations did not advance.

4.5. FDI Policies

4.5.1. Brazilian FDI policies

Brazil has had a relatively liberal FDI regime since the 1950s. For the standards of the period in which industrialization was based on import substitution (IS) policies, Brazil had a regime to regulate the flows of FDI that was not discriminatory. In contrast with the widespread tariff and non-tariff restrictions on imports, the investments regime had a few 'horizontal' reservations (i.e., valid for all sectors) and conventional sectoral restrictions consistent with the model that was dominant at the time. Nevertheless, this regulatory contrast was highly functional from the point of view of the model of development: the large, dynamic domestic market protected by all sorts of trade barriers was the main factor that attracted the flows of FDI to Brazil. Since the very beginning, foreign investments in the country were oriented by a market-seeking logic, the profitability of investments being guaranteed by a protectionist trade policy.

The Brazilian policy tradition during the industrialization period thereby combined trade protectionism based on high tariffs and non-tariffs barriers with a liberal and stable regulatory framework for foreign

14. See http://www.marocexport.ma/eng/content/free-trade-agreements direct investment. As a consequence, FDI flows have been historically favored by Brazilian policies vis à vis imports.

In addition to being relatively liberal, the Brazilian investment regime is notable for its stability, as it has been regulated by constitutional rules and by a Basic Law (Law no. 4131) from the early 1960s. The stability of the liberal nature of the legislation was preserved despite the significant political changes that characterized Brazil between the 1960s and the 1980s.

The liberalizing reforms that were the feature of the 1990s also impacted on the investment regime: in 1991, restrictions on the entry and operation of foreign companies in the information-technology sector were lifted, some mechanisms restricting the outflow of capital were removed, financial flows were partially liberalized, and a series of amendments to the Constitution (mostly adopted between 1995 and 1996) removed the state monopoly in telecommunications and in oil and gas, as well as with the constitutional distinction between national and foreign companies operating in Brazil, enabling foreign companies to participate in the privatization processes, bidding for public-services concessions.

During the Cardoso Administration (1995 – 2002), Brazilian authorities negotiated 16 Bilateral Investment Treaties (BIT), in line with the strategies followed by most developing countries. However, none of these treaties were approved by the Brazilian Parliament. As a result, Brazil is the only emerging economy that has no such agreements in place aimed at protecting foreign investors' rights. Nevertheless, the lack of this type of agreement does not appear to have jeopardized the flows of FDI to Brazil. Indeed, as shown before, the country has been receiving very relevant amounts of foreign capital, even in the absence of this formal protection.

Brazil has negotiated and implemented 33 bilateral agreements for the avoidance of double taxation (ADTs). However, there are some peculiarities in the Brazilian tax legislation that impair the achievement of full benefits from these agreements. Most of the problems faced by foreign investors with the use of the ADTs benefits in Brazil are related to the interpretation of important provisions of these agreements. Brazil and Morocco are currently negotiating an ADT.

It is worth noticing that no significant change in the policies adopted towards FDI was introduced under Lula's first term, although a great deal of criticism against 'liberal' FDI policies adopted by the previous government originated in the PT (Partido dos Trabalhadores – Lula and Dilma Rousseff's party). During its second term, Lula's administration became more sensitive to 'nationalistic' demands, supporting the consolidation of 'national champions' in sectors seen as strategic (telecoms) or where Brazil had strong comparative advantages. At the same time, industrial policies became more concerned with 'technological intensity' and the national content of FDI flows, creating some incentives for investments that met these criteria or conditioned the concession of incentives on a minimum level of local content.

In an effort to support the internationalization of Brazilian companies and especially to make investments related to these companies' objectives to expand exports, the federal government, through the Brazilian Development Bank (BNDES), implemented, at the end of 2012, a program to support foreign investments of nationally-owned firms. This policy of fostering the internationalization of Brazilian firms was combined with the support of 'national champions' in specific sectors. With the end of Rousseff's administration and the deep fiscal crisis that emerged in 2015 these policies based on credit incentives lost ground.

While Brazil has not implemented any BITs, Brazilian companies investing abroad, especially those operating in highly regulated sectors and in countries subject to political and economic instability, began to argue for the convenience of negotiating bilateral investment agreements that could provide some degree of protection against regulatory and political risks in the host countries. In 2012, the Brazilian government began to discuss internally alternative formats for the regulation of investments at the international level.

This initiative gave rise to a Brazilian framework for the Agreement on Cooperation and Facilitation of Investments (ACFI).[15] This framework seeks to combine investment promotion tools with risk mitigation provisions, without incurring commitments that are not compatible with Brazilian constitutional limitations or political sensitivities. The most relevant of the typical BIT provisions absent in the ACFI framework is investor protection through the Investor-State dispute settlement (ISDS) mechanism.

Mozambique, Angola, and Malawi in Africa, and Mexico, Chile, Colombia, and Peru in Latin America are the seven countries with which Brazil has signed ACFIs. Currently, Brazil is negotiating ACFIs with several developing countries, including Morocco.

4.5.2. Moroccan FDI policies[16]

Since the 1990s, encouraging FDI inflows has been a priority for the Moroccan government. Reports conducted by international agencies, such as OECD, UNCTAD and WTO point to the fact that Moroccan legislation does not discriminate against foreign investment, apart from a few exceptions for monopolies or restrictions in the natural resources sectors and in the acquisition of agricultural land.

Morocco adhered to the OECD Declaration on International Investment and Multinational Enterprises in 2009. Upon doing this, Morocco undertook to grant national treatment to foreign investors, with the exception of a negative list, which includes a cap on foreign ownership of capital in air transport companies, maritime transport companies, and marine fishing companies, limitations on the ownership of agricultural land and majority stakes in the capital of large national banks.

Morocco's investment regime has been going through modernization and changes. A draft investment law, consolidating all relevant texts is under preparation. The 1995 Investment Charter, established by Framework Law nº 18-95, is still the main investment legislation. This provides a convertibility regime for foreign investors in Morocco and allows for certain income tax or corporate tax exemptions. In addition, the Charter also establishes conditions for state contributions to some investment expenditure, such as land purchases, vocational training, or external infrastructure. On the institutional level, the Moroccan Investment Development Agency was created in 2009 and is responsible for promoting FDI in Morocco.

Morocco has signed around 60 BITs, of which 48 have entered into force. Furthermore, Morocco's free trade agreement with the United Sates incorporates a chapter on investment, aimed at protecting investors and investments from regulatory risks and policy instability. These agreements include ISDS provisions.

Morocco has also negotiated and implemented 50 international agreements for the avoidance of double taxation.

15. See Morosini and Badin (2015) for an accurate description of this instrument.
16. Based on WTO (2015) and on OECD (2010).

5. BRAZIL—MOROCCO BILATERAL TRADE AND INVESTMENT RELATIONS: CURRENT SITUATION AND OPPORTUNITIES

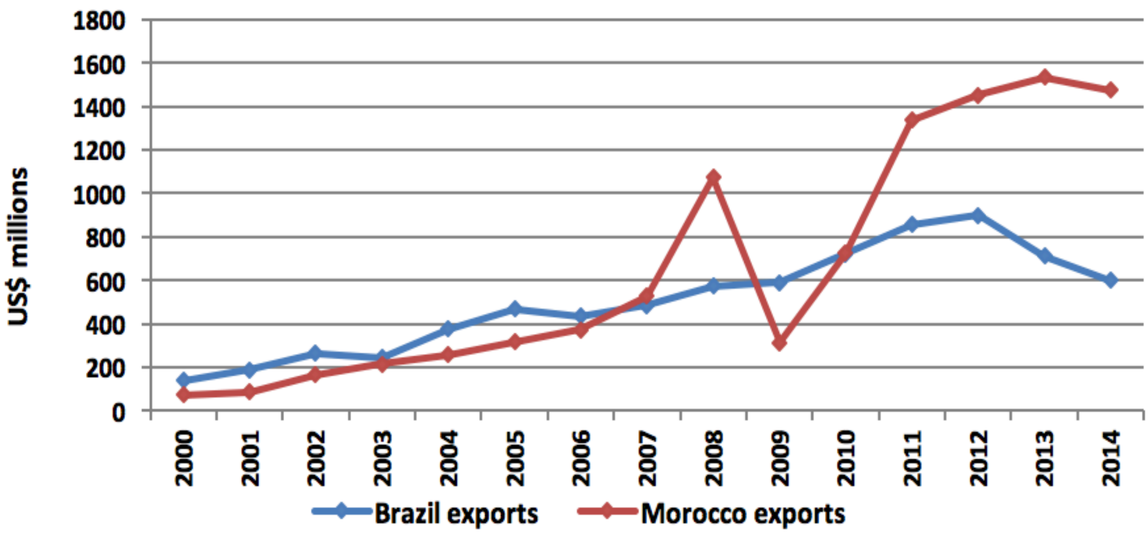
5.1. Evolution of Brazil-Morocco bilateral trade in goods

Bilateral trade between Brazil and Morocco grew significantly from 2000 to 2014, with average annual growth rates of 11.0% for Brazilian exports and 23.8% for Moroccan exports. The development of bilateral trade in this period covers three distinct trajectories (Table 5.1):

- In the first half of the last decade, both countries' exports experienced continuous growth, with annual rates of 32.2% for Morocco and 19.6% for Brazil between 2000 and 2007. As a result, the small trade surplus for Brazil at the beginning of the decade was replaced by a small surplus for Morocco in 2007.
- Between 2007 and 2010, Brazilian exports maintained the regular growth trajectory which characterized the previous period, although at a more reduced rate, of 14.3% per year. To the contrary, Morocco's exports oscillated strongly, growing 104% in 2008, falling 71% in 2009, and increasing 130% in 2010. The average annual rate of Moroccan exports in the period (11.2%) is lower than that of Brazil. In 2010, the bilateral trade balance was practically zero.
- After 2011, bilateral trade had a growing surplus in favor of Morocco, which reached US $874 million in 2014. In this period, Brazilian exports initially continued along the previous growth trajectory, increasing at an average annual rate of 11.5%, between 2010 and 2012. However, in the following two years, these exports experienced a significant fall of 70%. On the other hand, Moroccan exports increased 80% in 2011, grew 7.1% per year in 2012 and 2013, and fell 3.3% in 2014. In 2014, Brazilian exports to Morocco were practically at the same level as in 2009, while Moroccan exports to Brazil had multiplied 4.5 times.

The trend in the annual exports of Morocco to Brazil during this period followed the same pattern as Brazilian imports as a whole, reflecting to a large extent the macro-economic performance of the Brazilian economy and the volatility of its annual growth rates. However, Moroccan bilateral exports had a good performance from 2011 to 2014, while total Brazilian imports stagnated.

Figure 5.1 - Evolution of Brazil-Morocco bilateral trade – 2000-2014



Source: BACI - CEP II, compiled by Funcex;

The significance of this bilateral trade can be assessed by turning to the Trade Intensity Index which is used to determine "whether the value of trade between two countries is greater or smaller than would be expected on the basis of their importance in world trade." Table 5.1 indicates that the bilateral trade in 2013-2014 was larger than expected, given both countries' importance in world trade.[17]

The table also shows that the index related to Morocco is much higher than the Brazilian one and rose during the fifteen years in question, to the contrary of the Brazilian index, which declined, approximating a score of one.

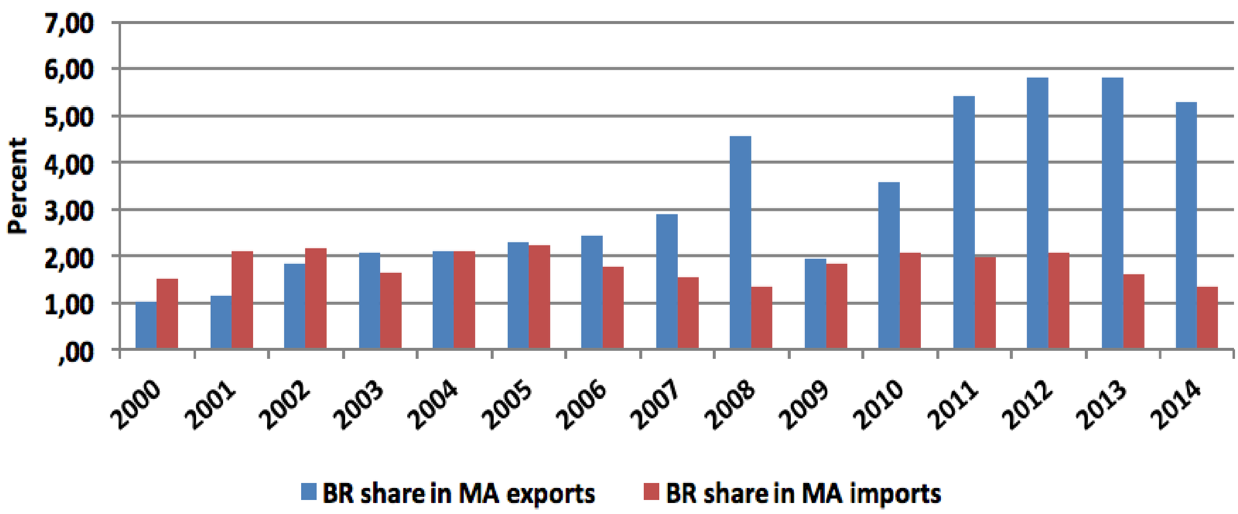
Table 5.1 - Brazil-Morocco bilateral trade: Trade Intensity Index in selected years

	Brazil exports			Morocco exports		
	2000/01	2006/07	2013/14	2013/14	2006/07	2013/14
Trade Intensity Index	1.864	1.299	1.097	1.144	3.203	4.224

Source: BACI - CEP II, compiled by Funcex

This evolution of bilateral trade – essentially of Moroccan exports – resulted in a significant increase in the share of the Brazilian market as a destination for Moroccan exports, which occurred over the last 15 years, but which has become significant since the beginning of the last decade, and is currently around 5.5% (Figure 5.2). On the other hand, the share of Brazilian products in Moroccan imports has remained relatively stable, oscillating between 1.5% and 2.0%.

Figure 5.2 - Brazil's share in Morocco's exports and imports – 2000-2014

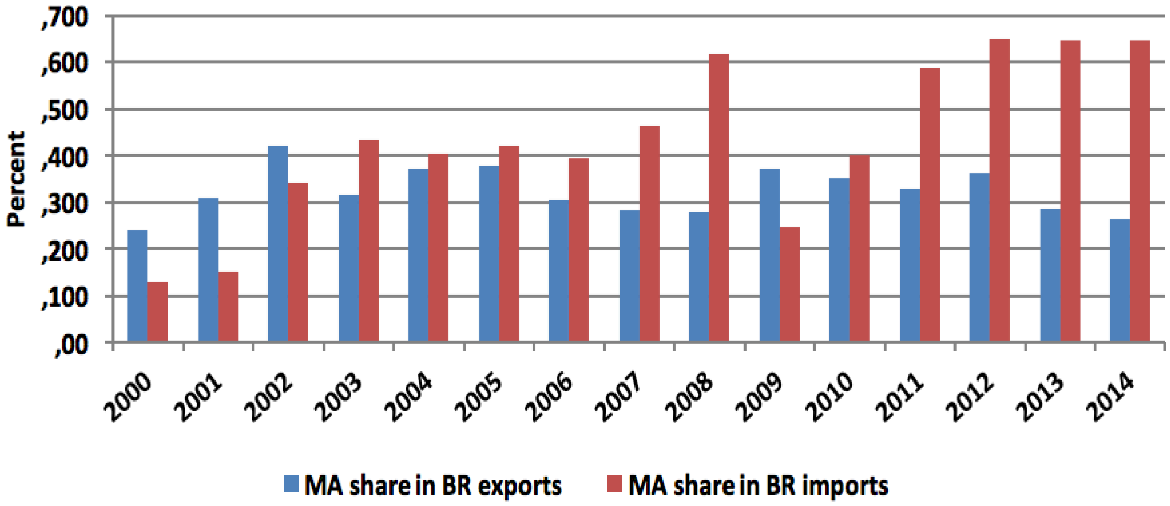


Source: BACI - CEP II, compiled by Funcex

The importance of the Moroccan market for Brazilian exports is small and it has remained stable for the last fifteen years (Figure 5.3). On the other hand, Morocco's share in Brazilian imports, although it is also not very large, increased from 0.4% at the beginning of the last decade to 0.6% in the first half of this decade.

17. An index of more (less) than one indicates a bilateral trade flow that is larger (smaller) than expected, given the partner country's importance in world trade. The Trade Intensity Index is measured as country i's exports to country j relative to its total exports divided by the world's exports to country j relative to the world's total exports: Tij = (xij/Xit)/(xwj/Xwt). (J.G.Reis and T. Farole, Trade Competitiveness Diagnostic Toolkit, The World Bank, 2012)

Figure 5.3 - Morocco's share in Brazil's exports and imports – 2000-2014



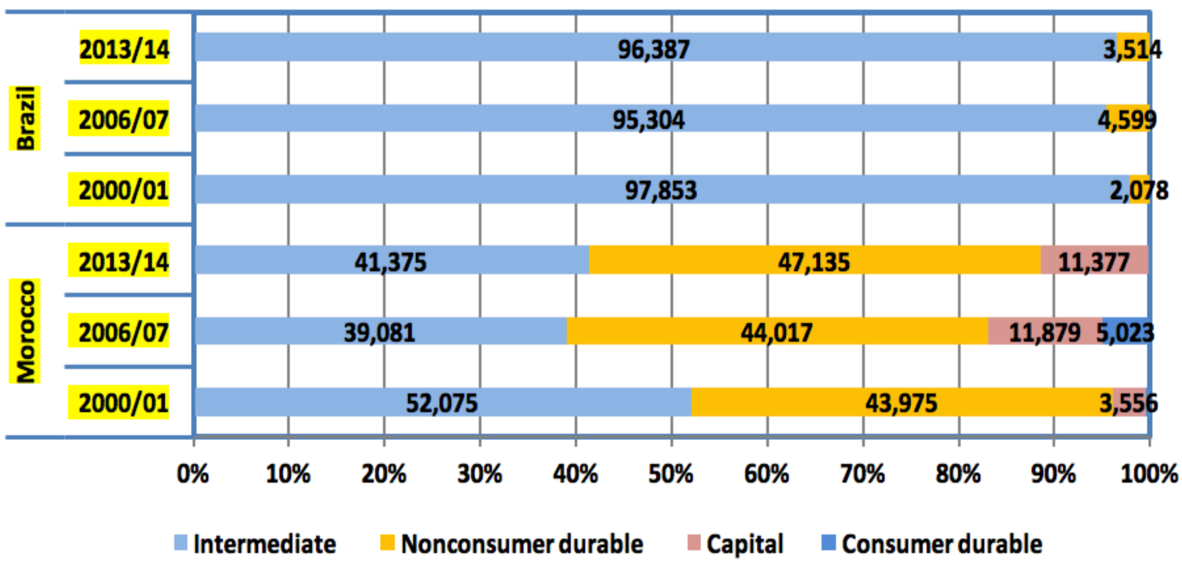
Source: BACI - CEP II, compiled by Funcex

5.2. Breakdown of Brazil-Morocco bilateral trade

The breakdown of Brazilian and Moroccan imports by the end use of the imported products reveals differences among the two countries:

- Brazilian imports of Moroccan products consist almost exclusively of intermediate goods (above 95%).
- In the case of Moroccan imports of Brazilian products, the share of non-durable consumer goods are slightly higher than intermediate goods (47.1% and 41.4% in 2013/2014, respectively); while capital goods correspond to around 11% of this flow in 2006/2007 and 2013/2014.

Figure 5.4 - Bilateral trade: breakdown of Brazil and Morocco imports by the end use of the import products – selected years

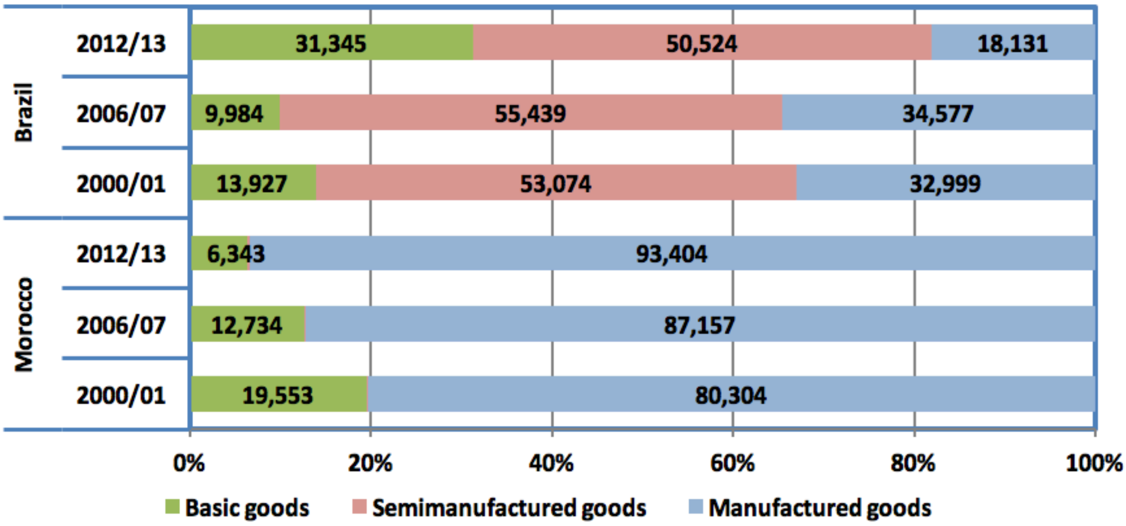


Source: BACI - CEP II, compiled by Funcex.

The breakdown of the Brazilian exports to Morocco by the level of industrial transformation of exported products shows the predominance of semi-manufactured goods (a little over 50%), followed by manufactured goods in 2000/2001 and 2006/2007 (around 34%), and then by basic goods in 2013/2014 (31%). This profile of Brazilian exports differs from total Brazilian exports, in which exports of semi-manufactured goods correspond to only 15% of the total.

As to Moroccan exports to Brazil, manufactured goods predominate, rising from 80% in 2000/2001 to 93% in 2013/2014. The share of manufactured goods in Moroccan exports to Brazil is significantly higher than the share of these goods in the total value of Moroccan exports.

Figure 5.5 - Bilateral trade: breakdown of Brazil and Morocco exports by the degree of industrial transformation of the export products – selected years



Source: BACI - CEP II, compiled by Funcex.

The breakdown of Brazilian and Moroccan exports by the 96 HS chapters (HS 2-digit) and the corresponding headings complements the previous comments about the composition of this trade and also allows the estimation of indicators related to the concentration level, intensity, and the complementarity of these trade flows.

Table 5.2 shows Brazilian and Moroccan exports of the HS chapters (HS 2-digit) with annual exports greater than US$ 5 million in 2013/2014 — eight chapters in Brazil and ten in Morocco.

- Brazilian exports are very concentrated: the three main chapters are responsible for 83% of the total; moreover, exports from these three chapters are also concentrated in single HS headings (HS 4-digit). These chapters are (i) sugar and sugar confectionery (45.8%, heading: cane sugar); (ii) cereals (26.9%, maize-corn); and (iii) aircraft and parts (9.9%, other aircraft - for example, helicopters, airplanes).
- Moroccan exports are equally concentrated: the three main chapters account for 93% of the total, concentrated in turn in five of its headings: (i) fertilizers (56.7%, distributed among mineral or chemical fertilizers containing two or three of the fertilizing elements (42.8%), and mineral or chemical fertilizers, phosphatic – 13.9%); (ii) mineral fuels, mineral oils and products of their distillation (31.5%, with petroleum oils and oils obtained from bituminous minerals accounting for 16.6%, and oils and other products of the distillation of high temperature coal tar for 14.9%); and (iii) salt; sulphur; earths and stone (4.5%, concentrated in natural calcium phosphates, natural aluminum calcium phosphates and phosphatic chalk).

Table 5.2 - Bilateral trade: main chapters (HS 2-digit) of Brazil and Morocco export products in 2013/2014 (1)

Exports from Brazil to Morocco			Exports from Morocco to Brazil		
	US$ Million	Percent		US$ Million	Percent
17 Sugars and sugar confectionery.	300	45.8	31 Fertilisers.	852	56.7
10 Cereals.	176	26.9	27 Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes.	473	31.5
88 Aircraft, spacecraft, and parts thereof.	65	9.9	25 Salt; sulphur; earths and stone; plastering materials, lime and cement.	67	4.5
15 Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes.	26	4.0	03 Fish and crustaceans, molluscs and other aquatic invertebrates.	24	1.6
84 Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	10	1.5	85 Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles,	23	1.5
24 Tobacco and manufactured tobacco substitutes.	7	1.1	28 Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, of radioactive elements or of isotopes.	21	1.4
85 Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles,	7	1.0	62 Articles of apparel and clothing accessories, not knitted or crocheted.	14	1.0
47 Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper or paperboard.	5	0.8	87 Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof.	6	0.4
			30 Pharmaceutical products.	5	0.3
			88 Aircraft, spacecraft, and parts thereof.	5	0.3
Subtotal	597	91.0	Subtotal	1,490	99.1
Total	**656**	**100.0**	**Total**	**1.504**	**100.0**

Source: BACI - CEP II, compiled by Funcex; own elaboration
(1) Chapters (SH 2-digit) with annual exports larger than US$ 5 million.

The greater concentration of Moroccan exports, indicated by the share of the three main HS chapters in the bilateral trade of the two countries, is confirmed by the Hirschman-Herfindahl Index shown in Table 5.3. However, it should be noted that when exports are analyzed at the highest level of disaggregation, classified according to the HS (4-digit) headings, Brazilian exports are a little less concentrated than Moroccan — a result which was also observed previously in relation to the total value of exports from both countries. Table 5.3 also indicates that in the two countries the level of concentration remained relatively stable between 2000/2001 and 2006/2007, but grew in 2013/2014.

Table 5.3 - Bilateral trade Brazil-Morocco: export concentration at different HS levels in selected years

	Brazil exports			Morocco exports		
	2000/01	2006/07	2013/14	2000/01	2006/07	2013/14
Share of 3 main chapters (HS 2-digit)	62.7	63.3	82.8	88.2	84.1	92.5
Herfindahl – HS 2-digit	0.233	0.232	0.295	0.283	0.301	0.423
Herfindahl – HS 4-digit			0.294			0.254

Source: BACI - CEP II, compiled by Funcex; own elaboration

It is worth pointing out to some relations between the export portfolios of the two countries, as shown in the results given in Table 5.2.

- A significant part of the bilateral trade between Brazil and Morocco is associated with the agricultural productive chain, involving the export of agricultural raw materials by Morocco and the export of food products by Brazil.
- Two HS chapters should be highlighted in the export portfolios of both countries, although the export values are not necessarily expressive: (i) aircraft and parts —in the case of Brazil, in HS heading 8802 (other aircraft - for example, helicopters, airplanes) and in the case of Morocco in heading 8803 (parts of goods of headings 8801 or 8802) — and (ii) electrical machinery and equipment and parts — which covers, in both countries, several headings.
- The vehicles and parts and accessories chapter is highlighted only in the case of Moroccan exports. However, the application of the same filter used in Table 5.2 to Brazilian exports in 2000/2001 and in 2006/2007 shows exports of vehicles and parts in the amount of US $7 million and US $65 million, respectively.

However, as a rule, intra-industry trade is not significant in bilateral trade between Brazil and Morocco. The Grubel-Lloyd Index, which measures the scale of intra-industry trade, calculated in reference to the HS (4-digit) headings, is only 0.0051 — the score of one indicates maximum intra-industry trade and zero, the presence of only interindustry trade.[18]

On the other hand, the complementarity of the trade portfolios of Brazil and Morocco can be assessed using the Trade Complementarities Index (TCI), which determines "the correlation between a country's exports to the world and another country's imports from the world, implying that the two countries stand to gain by trading more with each other when one has a comparative advantage in products in which

18. The Grubel-Lloyd Index is expressed as $GLI = 1 - [\sum |Xi - Mi| / \sum |Xi + Mi|]$ where X and M are the exports and imports of sector i. The score of 100 indicates that the two countries are ideal trading partners, while a lower score indicates that the two countries export similar products and there may not be much scope in expanding one's exports to the other.

the partner has a comparative disadvantage."[19] The results obtained for the two countries, calculated in reference to the HS (4-digit) headings, indicate not very high levels of complementarity: 36.5 in case of the Brazil and 24.7 in the case of Morocco.

Table 5.4 focuses on the importance of Brazil-Morocco bilateral trade from the point of view of each country. The assessment of the importance of bilateral trade for a country takes into account the importance of the partner (i) as a market for its products (assessed by the weight of exports to the partner in relation to the country's total exports), and (ii) as a supplier of the products it imports (assessed by the market share of the partner in relation to the total value of its imports). Table 5.4 shows the HS chapters in which this share was higher than 2% in 2013/2014.

- Brazil is very important for Morocco as a market for its production of fertilizers (it imports more than 40% of Morocco's exports) and of mineral fuels, mineral oils and products of their distillation (33%). Brazilian imports of meat, fish or crustaceans, mollusks have a lower weight in the partner exports (8%). On the other hand, Brazil is a very important supplier of sugar (83% of Moroccan imports). Brazil is important also, albeit with a lower market share, in the imports of pulp of wood or of other fibrous cellulosic material (14% of total imported), aircraft, and parts (11%), and cereals (10%).
- Morocco is important for Brazil as a supplier of fertilizers (11%) and of salt; sulphur; earths and stone; plastering materials, lime and cement (8%). As a market, Morocco is of little importance for Brazilian exports.

19. J.G.Reis and T. Farole, Trade Competitiveness Diagnostic Toolkit, The World Bank, 2012, p.37. TCI is expressed as TCIij = 100. [1 - ∑ |mik - xjk |/ 2] where mik is product k's share in country i's total imports, xjk is product k's share in country j's exports to the world

Table 5.4 - Importance of Brazil-Morocco bilateral trade by selected chapters (HS 2-digit) of export and import products - average 2013/14 (percentage)

Importance of Brazil to Morocco		
	as a market	as a supplier
	Morocco exports to Brazil	Morocco imports from Brazil
03 Fish and crustaceans, molluscs and other aquatic invertebrates.	2,2	
10 Cereals.		10,3
12 Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants; straw and fodder.		7,4
15 Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes.		4,9
16 Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates.		7,6
17 Sugars and sugar confectionery.		82,7
24 Tobacco and manufactured tobacco substitutes.		4,3
25 Salt; sulphur; earths and stone; plastering materials, lime and cement.	4,1	
27 Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes.	32,8	
30 Pharmaceutical products.	6,8	
31 Fertilisers.	39,7	
47 Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper or paperboard.	-	14,4
53 Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn.	-	5,2
81 Other base metals; cermets; articles thereof.	2,7	
88 Aircraft, spacecraft, and parts thereof.		10,6

Importance of Morocco to Brazil		
	as a market	as a supplier
	Brazil exports to Morocco	Brazil imports from Morocco
10 Cereals.	2,9	
17 Sugars and sugar confectionery.	2,6	-
25 Salt; sulphur; earths and stone; plastering materials, lime and cement.		7,6
30 Pharmaceutical products.		0,1
31 Fertilisers.		10,7
53 Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn.	3,5	

5.3. Bilateral trade in services

It is well known that publicly available statistical information on bilateral trade in services is far from reaching the standards and scope of data on trade in goods, particularly when it involves flows between developing countries.

To fill (albeit partially) this gap in the case of Brazil - Morocco trade relations, this paper resort to a new data basis compiled and organized by the Brazilian government, through its Ministry of Development. Data are only available for 2014 and 2015 and they rely on export and import documents filed online by exporters and importers.

At first glance, it appears that data informed and processed fall short from the total of Brazilian services trade flows, not only because it is likely that many trade operations have not been informed, but also because the statistics do not include the so-called GATS mode 3 of international services provision (commercial presence or investment in services).

Nevertheless, given the lack of statistical information on Brazil - Morocco bilateral trade in services, this database can provide some insights on the absolute and relative dimension of the bilateral trade as well as on the sectoral composition of flows.

The Brazilian exports of services included in the dataset amounted, in 2015, to US$ 18.96 billion – more than 56% of the total exports of the country. As for imports, US$ 45.58 billion have been informed, representing 64.4% of the total of services imports by Brazil in 2015. It is reasonable to argue that the database provides a good sample of the bilateral services trade taking place under GATS modes 1, 2 and 4.

Taking these figures as a reference, Brazil's exports to Morocco reached US$ 3.4 million in 2015, which represented less than 0.02% of the total exports compiled by the dataset. The share of imports originating in Morocco in the total imports considered by the data basis is even smaller: 0.005%, corresponding to US$ 2.4 million.

Table 5.5 - Brazil-Morocco bilateral trade in services (US$ million and %) - 2015

Exports to Morocco	3.4
Exports to the world	18,962.9
% Morocco / World	**0,02%**
Imports from Morocco	2,4
Imports from the World	45,581.2
% Morocco / World	**0,005%**

Over the last two years, the bilateral balance of trade in services has benefitted Brazil, which recorded a yearly surplus of US$ 1.5 million, in 2014, and US$ 1 million, in 2015.

As for the sectoral composition of the bilateral trade in services, the data used refer to 2014. On the Brazilian export side, transports (mainly by water) and other professional, technical and managerial services appear as the most relevant sectors, each one contributing with US$ 965 thousands to this year's export performance. Together, they accounted for 40% of the total exports compiled by the data basis.

On the import side, transport services (by water, including auxiliary services) and services relating to travel and tourism accounted for the bulk of the total. In fact, travel services imports represented US$ 1 million in Brazilian imports, in 2014, while the import of transport services reached US$ 906 thousand, the same year. Together, these two sectors accounted for 56% of the bilateral imports compiled by the Brazilian data basis in 2014.

5.4 Brazil- Morocco bilateral trade: identified opportunities (interpreting complementarity trade index)

This paper aims at identifying opportunities for increasing bilateral Brazil-Morocco trade. This section presents a selection of around 30 products (characterized according to HS headings) from the export portfolio of the two countries for which a possibility has been identified of expanding the flow of bilateral trade in the coming years. These products, thereby, deserve special attention in the formulating of bilateral trade policies.

These two sets of 30 HS headings include: (i) products absent from the export portfolio of one of the countries or without a relevant share in the partner market but which have a potential for growth in this market, as well as (ii) products with a significant presence in bilateral trade, which can, however, be expanded and consolidated.:

- For the identification of products whose exports from the country do not have a significant share in the partner's imports, but which have potential for growth, the complementarity of the export and import portfolios of the two countries was used as a reference. These products were selected among those which simultaneously fulfilled two criteria — (i) they are exported at a significant volume from the country to the world and (ii) they are imported at a significant volume by the partner. .
- Products whose share in bilateral trade is already relevant, but which could be expanded were identified on the basis of the results presented in the previous sections.

Tables 5.6 and 5.7 list the selected products, presenting the total values of the country's exports and the partner's imports, as well as the tariffs applied and the main supplier in the destination market.

- **Products without significant exports to the partner, but with potential for growth**

In relation to products whose exports to the other country do not presently have a significant share in the partner's imports, but which have potential for growth, 25 products were selected from Brazil and 24 from Morocco.

- It should be initially highlighted that motor vehicles and parts appear as opportunities identified in both countries, with average imports of US $20.6 billion in Brazil and US $2.8 billion in Morocco for 2013 - 2014. The aim in this case should be the development of intra-industry trade, which is nonetheless conditioned on the global strategies of vehicle producers, some of which are present in both countries. It is worth noting that the current trade policies of the two countries, in particular of Brazil, are obstacles to this development. The maximum tariffs of the two countries are very high — 25% in Morocco and 35% in Brazil. The average tariffs of Brazil are very close to this maximum in the case of motor vehicles — 35% for passenger vehicles and 32.5% for commercial vehicles – while they are also high for parts (14.5%). Average Moroccan tariffs are significantly lower than in Brazil, although they are still high — 11.8% for passenger vehicles, 17.1% for commercial vehicles, and 10.0% for parts.
- Aircraft and parts are also an opportunity for the development of intra-industry trade between the two countries. Total exports of these products by Brazil were an average of US $478 million in 2013/2014, while imports reached US$ 1.181 million. In the case of Morocco, total imports (US $276 million) were

at the same level as exports (US $286 million). The tariff level incurred on these products is zero in Brazil and 2.5% in Morocco. The United States and France are the two main suppliers of these products in the two markets, with the main supplier being the United States in Brazil and France in Morocco.

Brazilian imports of the other products (excluding motor vehicles and parts and aircraft parts) in which a potential for growth of Moroccan exports to Brazil was identified added up to US$ 6.5 billion in 2013/2014. The total value of the exports of these products by Morocco was US $ 8.8 billion.

- Among the products selected for Moroccan exports, the most important are articles of clothing, classified under eight HS headings, and electrical components and apparatus, covered by three HS headings. Brazilian imports under these headings were US $2.9 billion in the case of electrical components and apparatus and US $1.6 billion for articles of clothing.
- In the case of articles of clothing, a greater presence of Moroccan products in the Brazilian market is hindered by the tariff of 35% incurred on all the products classified in the eight headings selected. The competition to be faced entering this market basically consists of Asian producers. China is the main supplier in all eight headings, in seven cases accounting for more than 50% of imports; of the 16 positions of second and third most important supplier, 13 are also occupied by Asian countries (Bangladesh, India, Singapore, Vietnam, and Cambodia).
- A similar scenario appears in the case of footwear and parts of footwear, two headings also seen as opportunities for Morocco in the Brazilian market. The average tariffs applied on products classified under these headings are 33.75% and 18% respectively. The main suppliers are Vietnam and China.
- In the case of electrical components and apparatus, the average tariffs are lower — around 13% in two headings and only 1.73% in the third. Here China also appears as the main supplier in the three headings, responsible in all cases for around 1/3 of Brazilian imports.
- The selection also included four HS headings related to food products, most important of which are fresh or chilled and prepared or preserved fish. The average tariffs incurred on products classified in these headings are between 9.8% related to fresh or chilled fish and 20% referring to cheese and curd.

Moroccan imports of selected products, excluding motor vehicles and parts and aircraft parts, in which a potential for the growth of Brazilian exports were identified amounted to US $4.0 billion in 2013/2014. The total value of exports of these products by Brazil was US $15.2 billion.

- The selection included five headings related to iron and steel products, with total average annual imports of US $960 million in 2013/2014. The tariff levels incurred on semi-manufactured products is only 2.5%, and although the maximum tariffs on manufactured products is 25%, the average tariffs are in general less than 10%. The market shares of the main suppliers of these markets are not high (the largest market share is that of Spain referring to flat-rolled products of iron or non-alloy steel).
- Also of importance are four headings referring to chemical products and one heading for pharmaceuticals products, with total imports of US $833 million in the case of the chemical products and US$ 398 million for the medicines. The averages tariffs for these headings are less than 10%. The main suppliers are France, in the case of the drugs, Saudi Arabia in the case of ethylene and propylene polymers, and Spain for the other two chemical product headings. Only Saudi Arabia has a higher market share, around 2/3 of imports.
- The selection also included three headings related to the machinery and equipment industry — specifically road building equipment; pumps; and taps and valves for pipes, boilers, etc. — and two headings for products of the electrical machinery and apparatus industry — electrical transformers,

converters and inductors and electrical apparatus for line telephony. The highest average tariffs related to these headings are for electrical transformers, converters and inductors (14.2%), and taps and valves (11.5%). Imports under these headings are little concentrated; the highest concentration occurs for imports under the electrical transformers, converters and inductors heading, in which the main supplier, China, accounts for 43% of imports.

The opportunities to expand Brazil-Morocco bilateral trade identified here cover cases which consider the expansion and consolidation of market shares that have already been achieved, others which involve the development of intra-industry trade, and finally, opportunities which reflect complementarity and the asymmetries between productive structures and between the foreign trade portfolio of Brazil and Morocco.

It is possible to identify, however, in relation to these products, aspects of the trade policy of the two countries which hinder the achievement of these opportunities for the growth of bilateral trade — on the one hand, the level of tariff protection applied to many of the products selected; and on the other, the existence of trade agreements which confer competitive advantages, in relation to potential exporters, on countries which already have the largest shares of the imports of many of these products.

The obstacle represented by high tariffs is, as has been seen, most significant in relation to Brazilian imports. Of the 31 products selected, eleven have tariffs above 30%, while two have average tariffs of 18%. In the case of Morocco, the five highest average tariffs are between 20% and 25%, while another six are between 10% and 20%. The main supplier of 12 of these 13 products is China (and the other is Vietnam); in other cases, related to motor vehicles, the principal supplier is Argentina, which does not face this tariff due to MERCOSUR. In this context, China appears to be the principal competitor to be faced by Morocco in access to the Brazilian market for the selected products, notably in the case of clothing and footwear.

On the other hand, the competitive disadvantages in gaining access to the market faced by a new exporter as a result of trade agreements with third countries are more present in the Moroccan case. Morocco's trade agreements favour the principal supplier of 20 of the 29 products selected — in 16 cases the principal supplier is the European Union (already excluding the United Kingdom), in two cases Turkey (Free Trade Agreement) and Saudi Arabia (Pan-Arab Free Trade Area - PAFTA). The competitive disadvantage of Brazilian exporters is significant in the cases of seven of the eleven products with average tariffs superior to 10% in which the principal supplier is a member state of the European Union. In relation to the Brazilian market, only in the case of seven of the 31 products selected is the principal supplier a country with whom Brazil has a trade agreement — in four, a member state of MERCOSUR (Argentina); and in three, South American countries who have Complementary Economic Agreements with MERCOSUR (Chile, Peru, and Ecuador).

In this context, the full achievement of the opportunities to expand bilateral trade between Brazil and Morocco is dependent on the holding of trade negotiations between the two countries which can remove the obstacles currently arising out of their trade policies, in particular those which can eliminate high tariff protection and which hinder access to markets of many products, and which assure exporters potential conditions similar granted by the preferential trade agreements in force.

- **Products with a relevant share in bilateral trade**

In relation to the products of one country which had a relevant presence in the partner market, four products were considered in the case of Brazil and seven in that of Morocco.

In the case of the seven Moroccan products for which an increased market share is possible, the country is already one of the three main suppliers of Brazil in six of these, of which it is the main supplier in the case of oils and other products from the distillation of high temperature coal tar (with a market share of 69%), and mineral or chemical fertilizers (32%). The average tariffs on these two products, as well as those on mineral or chemical fertilizers containing two or three of the fertilizing elements; natural calcium phosphates; and petroleum oils and oils obtained from bituminous minerals are lower than 2%. The average tariff incurred on the two other products, fish and phosphoric derivatives are 9.9% and 3.7%.

In relation to the four Brazilian products already present in the Moroccan market, Brazil is one of the three main suppliers of Morocco in three cases, (maize; sugar; and other aircraft, for example, helicopters, airplanes), and is the main supplier of sugar, with a market share of 87%. The forth product is soybean oil, for which Germany is the main supplier. There does not seem to be much space for a greater expansion of exports of sugar, but in relation to the other products, it seems possible to increase their market shares. Two of the products selected are subject to high tariffs: in the case of sugar, the tariff range is 25%-50% and the average tariff 41.5% (which does not prevent a strong presence in the Moroccan market); in relation to soybean oil, the maximum tariff is 25% and the average tariff, 13.75%.

Table 5.6 - Opportunities to increase Brazilian exports to Morocco

	HS 4	Description	Brazil expórts1 Total	Morocco imports Total	Morocco Ad Valorem MFN tariffs		Market shares of main suppliers to Morocco	
			US$ Million	US$ Million	Tariff range	Average tariff	Country	Market share (%)
		Products with a relevant share in bilateral trade						
	1005	Maize (corn)	5.400	437	2,5	2,50	Argentina	45,0
	1507	Soya-bean oil and its fractions, whether or not refined, but not chemically modified	1.331	374	2,5-25,0	13,75	Germany	30,6
	1701	Cane or beet sugar and chemically pure sucrose, in solid form	11.208	344	25,0-50,0	41,50	Brazil	87,3
	8802	Other aircraft (for example, helicopters, aeroplanes); spacecraft (including satellites) and suborbital and spacecraft launch vehicles	4.060	334	2,5	2,50	France	26,8
		Products without significant exports to the partner, but with potential for growth						
Chemical and pharmaceutic products	2304	Soybean oilcake and other solid residue, wh/not ground	7.135	217	2,5	2,50	Argentina	61,2
Chemical and pharmaceutic products	3004	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic uses,	1.591	398	2,5-25,0	8,77	France	40,1
Chemical and pharmaceutic products	3808	Insecticides, rodenticides, fungicides, herbicides, etc. wi	382	148	2,5-25,0	5,10	Spain	20,7
Chemical and pharmaceutic products	3824	Prepared binders for foundry moulds or cores; chemical products and preparations of the chemical or allied industries	210	123	2,5-25,0	4,36	Spain	20,5
Chemical and pharmaceutic products	3901	Polymers of ethylene, in primary forms	1.307	385	2,5-17,5	6,79	Saudi Arabia	64,5
Chemical and pharmaceutic products	3902	Polymers of propylene or of other olefins, in primary forms	629	177	2,5	2,50	Saudi Arabia	70,1
	4011	New pneumatic tyres, of rubber	1.315	275	2,5-25,0	21,35	France	16,3
	4804	Uncoated kraft paper and paperboard, in rolls or sheets, other than that of heading No 4802 or 4803	241	136	2,5-17,5	13,75	Sweden	38,5
	6908	Glazed ceramic flags and paving, hearth or wall tiles; glazed ceramic mosaic cubes and the like, whether or not on a backing	281	135	25,0	25,00	Spain	59,9

Iron and steel products	7204	Ferrous waste and scrap; remelting scrap ingots of iron or steel	223	144	2,5	2,50	United Kingdom	34,5
	7207	Semi-finished products of iron or non-alloy steel	2.396	369	2,5	2,50	Turkey	22,7
	7210	Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, clad, plated or coated	268	136	2,5-25,0	8,47	Spain	46,4
	7214	Other bars and rods of iron or non-alloy steel, not further worked than forged, hot-rolled, hot-drawn or hot-extruded, but including those twisted after rolling	301	178	2,5-25,0	6,59	Turkey	32,1
	7326	Other articles of iron or steel	267	135	2,5-25,0	20,96	France	30,4
Machinery, equipment	8413	Pumps for liquids, whether or not fitted with a measuring device; liquid elevators	538	206	2,5-25,0	4,70	France	29,3
	8429	Self-propelled bulldozers, angledozers, graders, levellers, scrapers, etc.	1.894	146	2,5	2,50	China	15,5
	8481	Taps, cocks, valves and similar appliances for pipes, boiler shells, tanks, etc	691	189	2,5-25,0	11,63	Spain	19,2
elect. machi.	8504	Electrical transformers, static converters (for example, rectifiers) and inductors	413	142	2,5-25,0	14,17	China	15,3
	8517	Electrical apparatus for line telephony or line telegraphy,	348	154	2,5	2,50	China	42,5
Motor vehicles and parts	8701	Tractors (other than tractors of heading 8709)	1.352	207	2,5-25,0	3,68	Italy	18,1
	8703	Motor cars and other motor vehicles principally designed for the transport of persons (	4.396	1.571	2,5-25,0	11,79	Germany	25,0
	8704	Motor vehicles for the transport of goods	1.920	307	2,5-25,0	17,09	Thailand	18,1
	8708	Parts and accessories of the motor vehicles of heading 8701 to 8705	2.963	659	2,5-25,0	10,00	Romania	28,9
	8803	Parts of goods of headings 8801 or 8802	478	276	2,5	2,50	France	60,4
	9403	Other furniture and parts thereof	527	197	25,0	25,00	China	34,9

Table 5.7. - Opportunities to increase Moroccan exports to Brazil

	HS 4	Description	Morocco expórts1	Brazil imports	Brazil Ad Valorem MFN tariffs		Market shares of main suppliers to Brazil	
			US$ Million	US$ Million	Tariff range	Average tariff	Country	Market share (%)
		Products with a relevant share in bilateral trade						
	3105	Mineral or chemical fertilisers containing two or three of the fertilising;	1.684	2.417	0,0-6,0	1,82	United States	26,9
	2510	Natural calcium phosphates, natural aluminium calcium phosphates and phosphatic chalk	1.273	188	0,0	0,00	Peru	51,6
	2710	Petroleum oils and oils obtained from bituminous minerals, other than crude;	972	17.472	0,0-6,0	0,40	United States	27,6
	3103	Mineral or chemical fertilisers, phosphatic	461	546	0,0-6,0	1,00	Morocco	38,2
	2707	Oils and other products of the distillation of high temperature coal tar; similar products	436	323	0,0	0,00	Morocco	69,2
	0303	Fish, frozen, excluding fish fillets and other fish meat of heading 0304	218	189	0,0-10,0	9,87	Portugal	23,9
	2809	Diphosphorus pentaoxide; phosphoric acid; polyphosphoric acids, whether or not chemically defined	1.499	59	2,0-10,0	3,67	United States	59,4
		Products without significant exports to the partner, but with potential for growth						
Food	0302	Fish, fresh or chilled, excluding fish fillets and other fish meat of heading No 0304	105	398	0,0-10,0	9,84	Chile	99,7
Food	0406	Cheese and curd	126	140	16,0-28,0	20,00	Argentina	51,7
Food	1604	Prepared or preserved fish; caviar and caviar substitutes prepared from fish eggs	638	111	16,0-32,0	16,94	Ecuador	39,0
Food	2005	Other vegetables prepared or preserved otherwise than by vinegar or acetic acid, not frozen,	160	159	14,0	14,00	Argentina	52,1

Clothing	6104	Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, etc.	332	100	35,0	35,00	China	62,1
	6109	T-shirts, singlets and other vests, knitted or crocheted	363	176	35,0	35,00	China	25,6
	6110	Jerseys, pullovers, cardigans, waistcoats and similar articles, knitted or crocheted	236	169	35,0	35,00	China	51,1
	6202	Women's or girls' overcoats, car-coats, capes, cloaks, anoraks, etc.	221	105	35,0	35,00	China	82,7
	6203	Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches and shorts (other than swimwear)	537	326	35,0	35,00	China	60,1
	6204	Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, etc.	1.381	356	35,0	35,00	China	55,4
	6205	Men's or boys' shirts	131	154	35,0	35,00	China	64,6
	6206	Women's or girls' blouses, shirts and shirt-blouses	418	228	35,0	35,00	China	57,0
Footwear	6403	Footwear with outer soles of rubber, plastics, leather or composition leather and uppers of leather	357	108	20,0-35,0	33,75	Vietnam	34,2
	6406	Parts of footwear, removable insoles, heel cushions and similar articles; gaiters, leggings and similar articles, and parts thereof	85	79	18,0	18,00	China	41,5
	7106	Silver (including silver plated with gold or platinum), unwrought or in semi-manufactured forms, or in powder form	134	167	6,0-12,0	9,60	México	39,0
	7404	Copper waste and scrap	169	100	2,0	2,00	México	35,9
Electrical components and apparatus	8536	Electrical apparatus for switching or protecting electrical circuits, or for making connections to or in electrical circuits boxes),	196	1.351	0,0-18,0	12,33	China	29,9
	8541	Diodes, transistors and similar semiconductor devices; photosensitive semiconductor devices,	264	525	0,0-12,0	1,73	China	33,5
	8544	Insulated wire, cable () and other insulated electric conductors, optical fibre cables	2.872	994	0,0-16,0	13,67	China	33,1
Motor vehicles and parts	8703	Motor cars and other motor vehicles principally designed for the transport of persons	2.097	8.443	35,0	35,00	Argentina	41,1
	8704	Motor vehicles for the transport of goods	215	3.202	0,0-35,0	32,57	Argentina	86,9
	8708	Parts and accessories of the motor vehicles of heading 8701 to 8705	109	7.772	0,0-18,0	14,49	South Korea	12,1
	8803	Aircraft parts of goods of headings 8801 or 8802	286	1.181	0,0	0,00	United States	30,9
	9401	Seats whether or not convertible into beds, and parts thereof	133	598	18,0	18,00	China	23,2

5.5. Brazil- Morocco bilateral FDI flows

The Brazilian Central Bank does not identify an individual country as the origin of FDI stock in Brazil when that the stock invested by that country amounts to less than US $10 million or if the number of investors from that origin is smaller than three companies. This is the case of Moroccan FDI in Brazil.

However, there are, at least, two Moroccan companies that have investments in Brazil. First, in 2011 the Moroccan phosphates company OCP Group announced the creation of a joint venture with the Norwegian company Yara in an industrial complex in Rio Grande do Sul, in the south of Brazil, involving a fertilizer plant, a maritime terminal, and a storage area. More recently, in 2013, the company announced the launch of a new business model in Brazil through the inauguration of OCP Fertilizantes do Brasil to distribute OCP products from several logistical platforms and storage centers in ports and in Brazil's agriculture heartland. In addition to OCP, Royal Air Maroc commenced operations in Brazil in the end of 2013.

The Brazilian Central Bank applies the same statistical methodology to Brazilian investment abroad as it does for FDI in Brazil, and thus information about Brazilian investment stock in Morocco is not available. Nevertheless, it is possible to identify at least two Brazilian companies with investments in Morocco. One of them is Votorantim Cimentos, which made an agreement in 2015 with InterCement (another Brazilian company belonging to the Camargo Corrêa Group), to carry out a corporate restructuring in Cimpor - Cimentos de Portugal SGPS. Under this agreement the assets of this Portuguese company will be controlled by Votorantim in seven countries. One of these countries is Morocco.

Another Brazilian company operating in Morocco is Randon, the largest manufacturer of trailers and semitrailers in Latin America. Randon has an assembly line of highway implements in Morocco in partnership with a local company.

6. A ROADMAP FOR FOSTERING BILATERAL TRADE AND INVESTMENT FLOWS

The assessment of Brazil and Morocco's economic structures, their external economic relations, and their bilateral trade and investment flows, briefly presented in the previous sections, indicates that there is much room for deepening the bilateral economic relationship. Section 5 of this research paper identified some opportunities for the expansion of bilateral trade. As seen in section 5.4, the insignificant shares of bilateral investments in each country's FDI flows suggest that there are opportunities to develop bilateral relations in the field of investments as well as in trade.

Although a roadmap for fostering bilateral economic integration should comprehend a varied set of initiatives, combining trade and investment promotion activities with negotiations of bilateral agreements on trade liberalization and investment facilitation, this section will focus on this latest subset of initiatives (the negotiating agenda). This decision is based on the finding that the trade and industrial policies adopted by both countries create important obstacles to bilateral trade.

As seen in the previous sections, Brazil and Morocco adopt trade and industrial policies that are geared towards the development of their domestic industries. Nevertheless, while Brazil sought to attract investment to increase the density of domestic production (mainly through local content policies), Morocco has been promoting the integration in the GVC in some specific segments.

Some of these policies translate into tariff and non-tariff barriers to imports, which affect the opportunities to increase bilateral trade (all over the world, non tarrifs barriefs are applied to restrain imports). Moreover, the barriers represent relevant obstacles to the seizing of the opportunities to increase and expand bilateral trade, some of which were identified in section 4.3.

The negotiation of a bilateral free trade agreement that removes most of trade barriers, eliminating tariffs and setting the convergence or the equivalence of regulatory issues, and which creates an institutional framework to offer predictability of regulations and settlement of disputes would contribute to foster bilateral economic relations. Furthermore, this roadmap should include an agreement that promotes and protects investment and a treaty to eliminate double taxation in investment operations.

It is important to take into account that Brazil is a member of MERCOSUR, and as such, has the commitment to negotiate preferential trade agreements together with its partners, as a bloc. Currently, this should not represent a relevant obstacle, since MERCOSUR members are entering into a period of convergence in relation to approaches to political and economic policies and the bloc has already negotiated a Framework Agreement on Trade with Morocco.

The scope and degree of ambition of a bilateral FTA should take into consideration the priorities and sensitivity of Morocco's and the MERCOSUR member states' trade and industrial policies. An initial approach to a FTA should incorporate the elimination of barriers to the bulk of trade in goods and services. Subsequent negotiating rounds could incorporate other thematic areas, if considered convenient by both parties.

6.1. Elements for an FTA between Brazil and Morocco

- **Tariffs**

In order to achieve an ambitious and comprehensive FTA, tariffs should be eliminated for substantially all trade (more than 90% of trade volume/value in 10 years after the agreement comes into force). There should be no a priori exclusion of products from the liberalization schedule. In the course of negotiations, both sides should consider options for dealing with the most sensitive products. These products could be contemplated with longer phase-out periods for tariff elimination, but should not be completely excluded from liberalization commitments. Nor should the list of sensitive products be concentrated in a single sector, in order to avoid the exclusion of an entire sector from the liberalization process.

- **Trade facilitation and customs procedures**

In order to facilitate bilateral trade and to allow companies to reap the full benefits of the trade preferences negotiated under the FTA, Brazil and Morocco should join efforts to cooperate in the implementation of the Trade Facilitation Agreement (TFA), reached in the Bali WTO Ministerial Conference.

Brazil and Morocco should implement a mutual recognition agreement for each country's Authorized Economic Operator Program, in order to speed up customs procedures for trade in goods.

- **Rules of origin**

The definition of rules of origin is a very relevant step for the effectiveness of preferential trade agreements. Special attention should be given to the design of the rules, which should be simple, flexible and transparent and should not hamper the ability of companies to benefit from the trade preferences negotiated in the agreement.

- **Regulatory issues: SPS and TBT**

Technical regulations and private standards are proliferating and creating new barriers to trade, particularly when they are established individually by countries outside of the umbrella of international fora. MERCOSUR and Morocco should explore ways to address behind-the-border obstacles to trade, with an emphasis on standards and regulations applied to imports of manufactured and agricultural products. It is important to find ways, for example, to protect human health or safety, animal or plant life or health, the environment, to prevent deceptive practices, and to guarantee national security, without creating unnecessary barriers to trade.

A bilateral FTA should incorporate an ambitious SPS (Sanitary and Phytosanitary) chapter, that goes beyond the WTO SPS Agreement, addressing the requirements that SPS measures be based on science and on international standards. This chapter should refer to: (i) the promotion of a more prevention–based mechanism; and (ii) the expansion in breadth and depth of information-sharing.

Both Parties should develop deep cooperation in exchanging views and information at a bilateral level and in relevant international bodies engaged in food safety and human, animal or plant life or health issues; and facilitating the timely exchange of information about their respective SPS measures. To this end, the FTA should incorporate a Sub-Committee on SPS Cooperation, to be integrated by experts from both sides with the purpose of undertaking consultations, including science-based consultations, to identify and address specific issues that may arise from the application of SPS measures with the objective of achieving mutually acceptable solutions.

A TBT (Technical Barriers to Trade) chapter should also be incorporated in the FTA. The objective of this chapter should be to promote transparency and dialogue in the regulations and standards setting process.

The agreement should allow for reducing redundant and burdensome testing and certification requirements, by promoting confidence among certification bodies of both countries. Agreements on mutual recognition of tests and certifications should be adopted in order to reduce costs and delays in bilateral trade. In this context preference should be given to international standards.

- **Services**

Services are increasingly an undissociated component of trade in goods. In order to foster bilateral economic relations, trade in services should be encouraged. Moreover, to reach a substantial liberalization in trade in services, efforts should be undertaken to achieve substantial sectorial coverage, going well beyond the GATS commitments of the countries involved (GATS Article 5).

- **Dispute Settlement Mechanism**

A robust mechanism for dispute settlement involving all the themes included in the FTA should be incorporated in the Agreement.

6.2. Agreement on the Facilitation of Movement of Natural Persons

Movement of natural persons is essential in enhancing business relations. Morocco and Brazil should negotiate an agreement on the facilitation of visa procedures, in order to expand their duration and reduce bureaucracy. Free movement of intra-corporate transferees, including prompt issuance of working permits and visas, movement of specialists, students etc. should be addressed.

6.3. Negotiation of an Agreement on Cooperation and Facilitation of Investments

The Brazilian government proposed to Morocco the negotiation of an Agreement on Cooperation and Facilitation of Investments (ACFI), according to the new framework described in section 3.7.1. As mentioned above, this framework seeks to combine the promotion of investments with the mitigation of risks. Signing such an instrument could contribute to the exchange of information and lead to the creation of a more predictable umbrella in order to stimulate bilateral investment operations. It could also be an intermediate step in the direction of the incorporation of an Investments chapter in the future MERCOSUR-Morocco FTA.

6.4 Negotiation of a Double Taxations Avoidance Agreement

Brazil and Morocco have launched negotiations for the signing of a Double Taxation Avoidance Agreement (DTAA). This is a complex negotiation since the two countries have different approaches towards the models of DTAAs they negotiate – Brazil following the model of NATO and Morocco the one of the OECD.

Brazil has a complex and burdensome tax regime, which results in high tax burden and compliance costs. In order to foster bilateral investments, it is important to reduce the tax burden on capital allocations. The avoidance of double taxation should be part of a broad bilateral initiative.

A FTA and other bilateral initiatives, such as those destined to facilitate the movement of natural persons and to reduce the tax burden over investment operations could be considered the starting point for more profound bilateral economic integration. There are several other aspects that could be included in a bilateral agenda. However, Brazilian and Moroccan economic relations are still very shallow and the setting of a very ambitious agenda could have a paralyzing effect.

7. CONCLUDING REMARKS

The differences in the size and structure of the Moroccan and Brazilian economies make any comparison between the two countries almost impossible. However, the assessment of their economic structures and of their foreign economic relations allows the conclusion that complementarities in their profiles create opportunities for economic integration that are not being seized by both countries.

Bilateral trade has grown at a significant rate since the beginning of this century, despite oscillations related to the macroeconomic cycles of the two economics and of international commodity prices. However, trade flows are very concentrated, though Brazilian exports to Morocco are a little less concentrated than Moroccan exports to Brazil, as shown by the indicators calculated in section 5.

Despite its concentration, the evolution of bilateral trade during this century has resulted in a significant increase in the share of the Brazilian market as a destination for Moroccan exports - currently around 5.5%. On the other hand, the share of Brazilian products in Moroccan imports has remained relatively stable, oscillating between 1.5% and 2.0%.

A significant part of the bilateral trade between Brazil and Morocco is associated with the agricultural productive chain, involving the export of agricultural raw materials by Morocco and the export of food products by Brazil. Intra-industry trade is not very expressive in bilateral trade between the two countries.

The analysis developed in this paper led to the identification of opportunities to expand Brazil-Morocco bilateral trade. The findings point to existing opportunities for the consolidation of market shares that have already been achieved and for the development of intra-industry trade in industrial sectors implemented in the two countries. There are also opportunities which reflect complementarity and the asymmetries between productive structures and between the foreign trade portfolio of Brazil and Morocco.

The paper also points to the fact that there are aspects of the trade policy of the two countries which hinder the achievement of these opportunities for the growth of bilateral trade. On the one hand, the high level of tariff protection applied to many of the products selected. On the other hand, the existence of trade agreements which confer competitive advantages, mainly in the case of Morocco, to other suppliers that compete with Brazil in the Moroccan market.

In this context, the negotiation of an FTA that removes the high tariff protection in both countries and that assures exporters market access conditions similar to the ones granted to other suppliers by preferential trade agreements in force is crucial to allow the seizing of the opportunities to expand bilateral trade between Brazil and Morocco.

Some proposals for the construction of a roadmap of bilateral negotiations that could contribute to the fostering of trade and investment flows were presented in Section 5. In addition to the conclusion of a FTA which covers the liberalization of goods and services, the roadmap includes recommendations for the negotiation of investments and taxation agreements, which could facilitate and protect investments and reduce their costs. Bilateral FDI is still insignificant, but the increase and diversification of investment initiatives could support the increase of trade and the development and cooperation in some industrial sectors that are gaining relevance in both economies.

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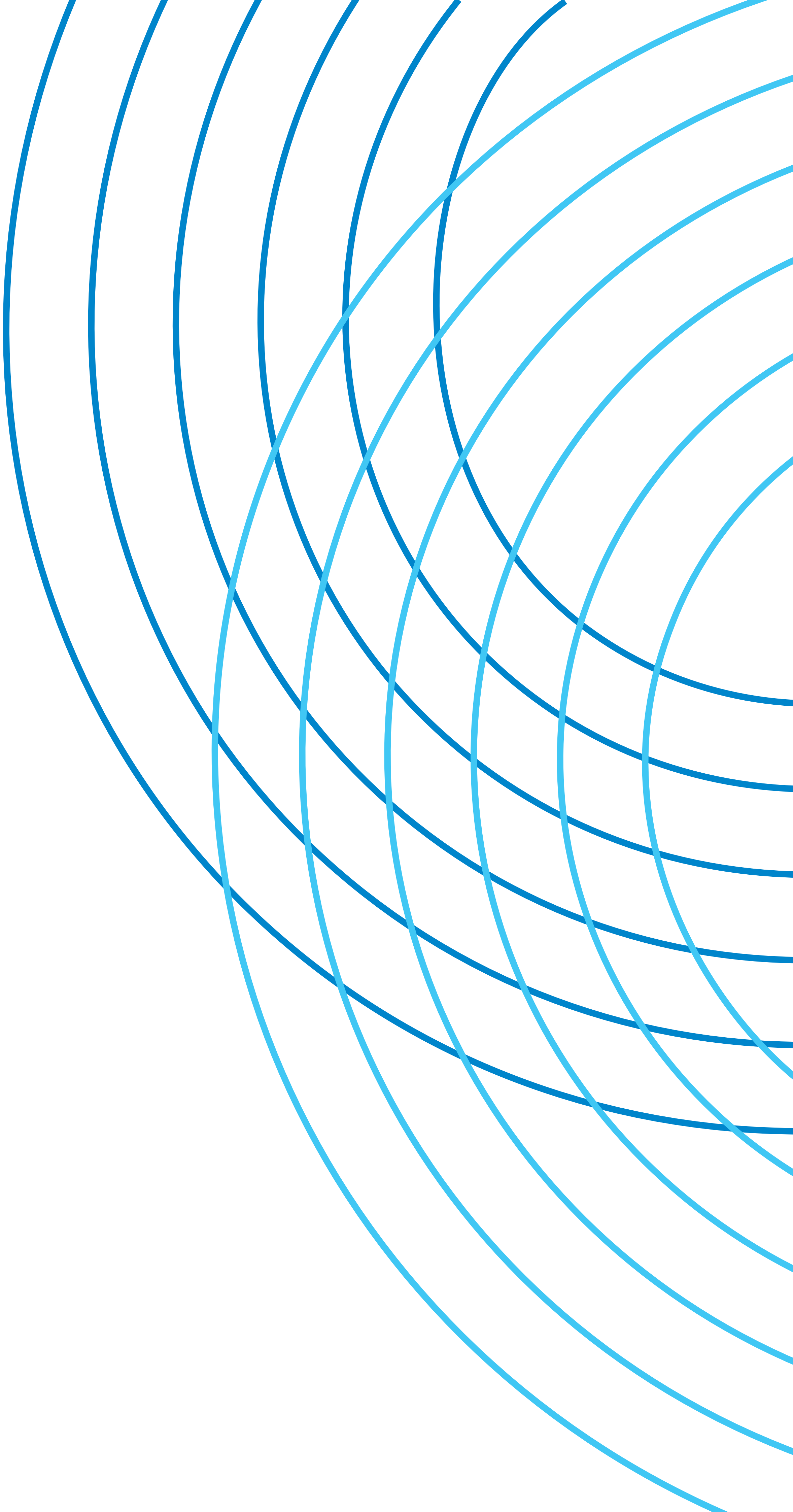

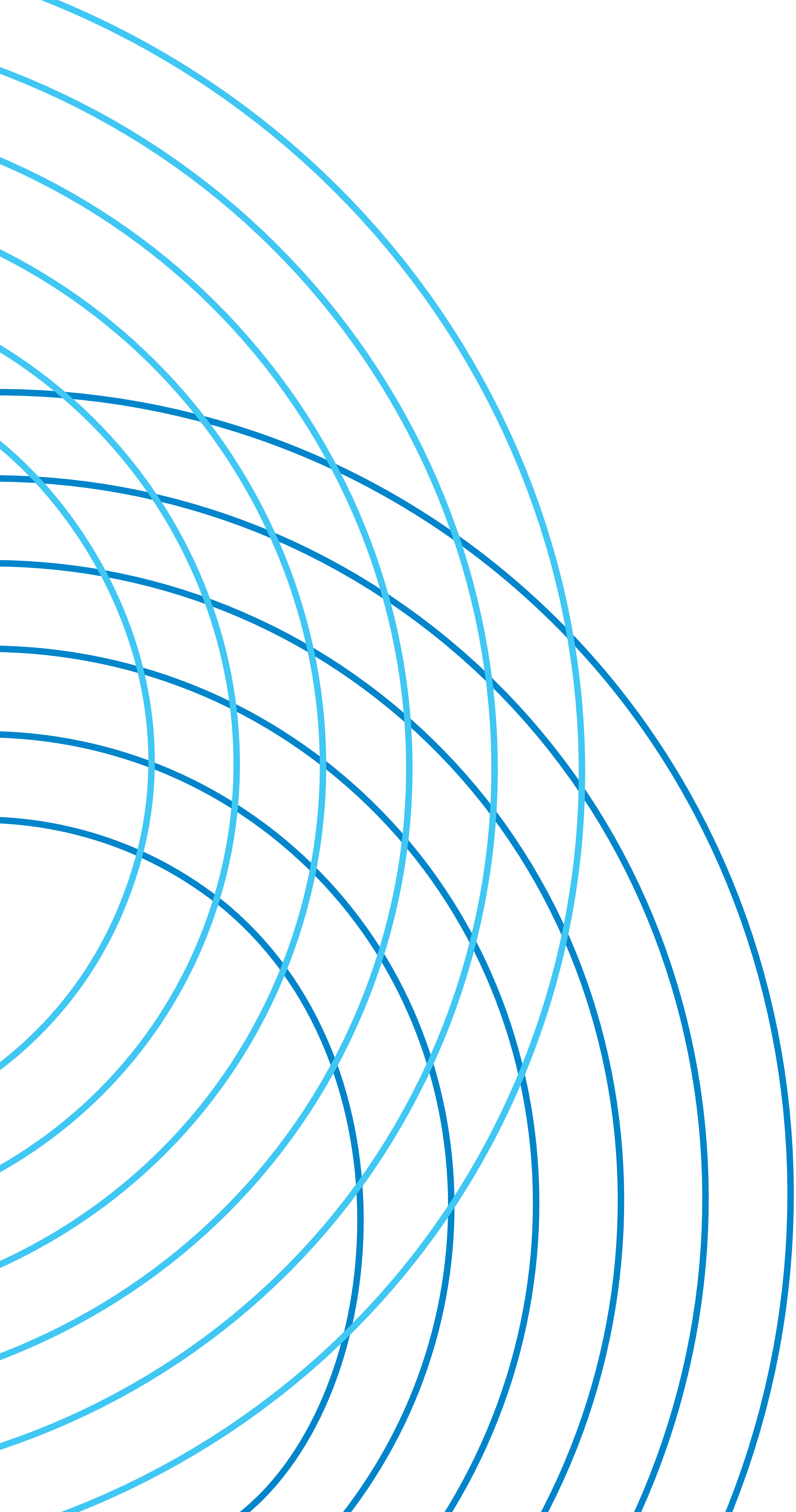

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