TONY BLAIR
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FOR GLOBAL
CHANGE

Industrial Policies and structural transformation in Tunisia and Morocco

MARCH 2022

Goverment Advisory

The trajectory of industrial policy in both countries

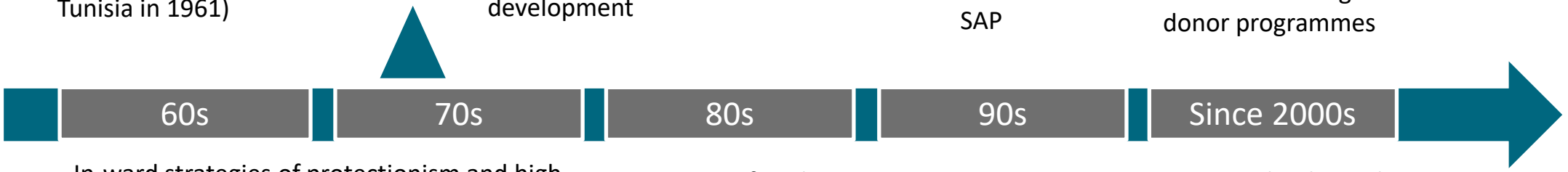
In-ward strategies of protectionism and high levels of import substitution in the 60s and until early 70s (with an experience of collectivisation in agriculture implemented in Tunisia in 1961)

Adoption of Loi 72 and investment code in 73

Export-promotion and FDI-led development

SAP

Horizontal approach to industrial policies – with a focus on some industries through donor programmes



In-ward strategies of protectionism and high levels of import substitution in the 60s and Throughout the 70s

Beginning of trade liberalisation and export-promotion

SAP

3 national industrial policies between 2005 and 2020 "Plans d'emergence"

Morocco took a serious approach to its industrial policies since the early 2000s

- In 2002, the authorities established the Hassan II Fund for Economic and Social Development in 2002. The fund intervened to support the financing of physical infrastructure in specific sectors, including automotive and aeronautics industries.

- In 2002, the authorities established the back-then National Agency for the Promotion of Small and Medium Enterprises (Agence Nationale pour la Promotion des Petites et Moyennes Entreprises) and now Maroc PME. The agency focused on improving SMEs' productivity and competitiveness through "upgrading" programmes.

Plan d'emergence Maroc - a turning point for industrial policies in 2005

- **2005 marked a turning point for industrial policies in Morocco**, with the adoption of three industrial plans between 2005 and 2015, all including a mix of transversal and targeted industrial policies, with an update of the list of targeted sectors in each new plan.

- Between 2005 and 2015, Morocco applied a self-discovery process, with updated interventions and list of targeted sectors and an increased focus on manufacturing development. The design and implementation of the plans also improved in time, with more collaboration with the private sector in the second and third industrial policies and better monitoring and evaluation frameworks, including through the introduction of "performance contracts" for each institution involved in the implementation.

- **For the first 2005 industrial plan, a selection exercise (based on Asian countries' experiences and competitive advantages of Morocco) resulted in focusing on the following six economic sectors** – known as Morocco's Global Jobs (*Métiers Mondiaux du Maroc* – MMM):
  - **Aeronautics food industry, textile, electronics and automobiles as well as offshoring** (subcontracted activities including in services)

The national industrial policies kept on being improved and authorities showed a commitment to learning

Second wave in 2009

- The framework of Plan d'Emergence was refined and updated in 2009 with the adoption of the National Pact for Industrial Emergence (PNEI). PNEI provided a stronger focus on the competitiveness and transversal policies, with an identification of new targeted sectors that were added to the list identified in 2005, namely: **pharmaceutical and chemical and para-chemical sectors** and detailed the incentives provided to investors and entrepreneurs engaging in the targeted sectors, mainly financed through the Hassan II Fund for Economic and Social Development.
- the PNEI was developed and **implemented based on increased collaboration with different actors, including private sector actors, compared to the first Plan d'Emergence.**

Third wave in 2014 (2014-2020)

- The Plan for Industrial Acceleration (Plan d'Accélération Industrielle, PAI) was the third industrial policy adopted in 2014 for the period 2014–2020 and the success of the PNEI and took the same approach as Plan d'Emergence and PNEI: a mix of transversal and targeted industrial policies.
- The list of targeted sectors was refined further, adding to the list included in the PNEI building materials, **renewable energy, electrical industry and metallurgy and metalworking, and withdrawing food-processing**.
- In terms of transversal support, PAI focuses on the creation of clusters and eco-systems, with high participation of the private sector in their establishment, including through the creation of public-private training institutions and an improved and increased collaboration with business associations. The plan also focuses on a better integration in global value chains (GVCs) by improving linkages between multinational firms and domestic firms, especially SMEs, highlighting further the importance of inclusiveness and the domestic impact of FDIs.

Tunisia – an industrial policy disrupted by the 2011 revolution

- Loi 72 and investment code 73 - Both instruments were, at least in theory, sector-agnostic. However, their implementation focused on selected manufacturing sectors, mainly textiles and, to a lesser extent, agro-processing and mechanical, electrical and electronic industries.

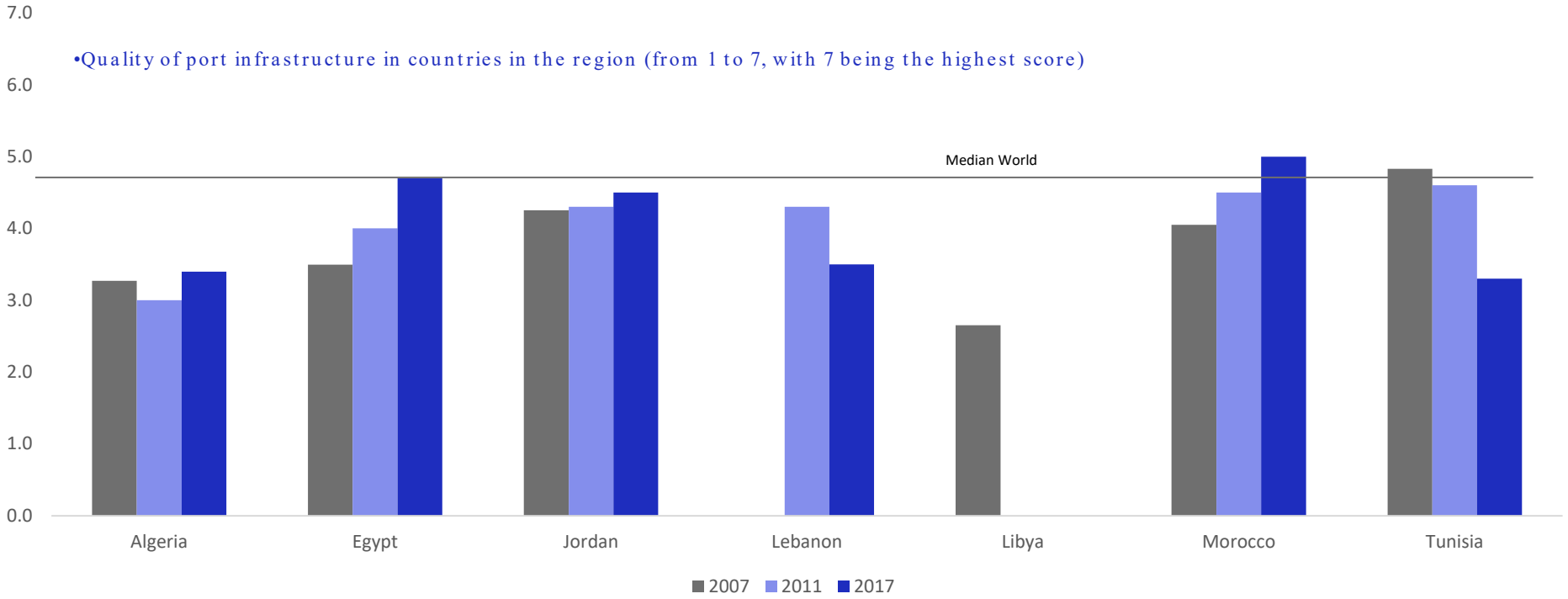
- The authorities did not formally adopt new vertical industrial policies that identified strategic focus sectors but rather implemented a couple of programmes with financial and technical supports from donors. For instance, Tunisia implemented an upgrading programme, the Programme de mise à niveau, in 1995, aiming at improving competitiveness in the manufacturing sector and funded by the Fonds de Développement de la Compétitivité (FODEC) with the contribution of multiple donors.

- In 2010, the Tunisian government adopted a new industrial strategy, “Horizon 2016”. The elaboration of the strategy followed a long consultation process with many stakeholders from the public and the private sectors, led by the Ministry of Industry, Energy and SMEs . The industrial policy's objective is to transition the economy to an innovation-oriented and knowledge-based economy while capitalizing on the success of the historic sectors (such as textiles, agro-processing, electrical and electronic industries). The strategy identifies two layers of new sectors and activities: a) services that leading complement to manufacturing, including ICT, Business Support Services and logistics and b) sophisticated high value-added activities, including electronic industries, automotive and aeronautics industries, technical plastics, pharmaceutical and paramedical industries and ICT. The strategy had the objective of doubling exports and tripling investment between 2006 and 2016.

- However, the strategy was never really implemented due to the 2011 revolution.

In parallel to the focused support in sectors, Morocco made huge improvement in the quality of its port infrastructure

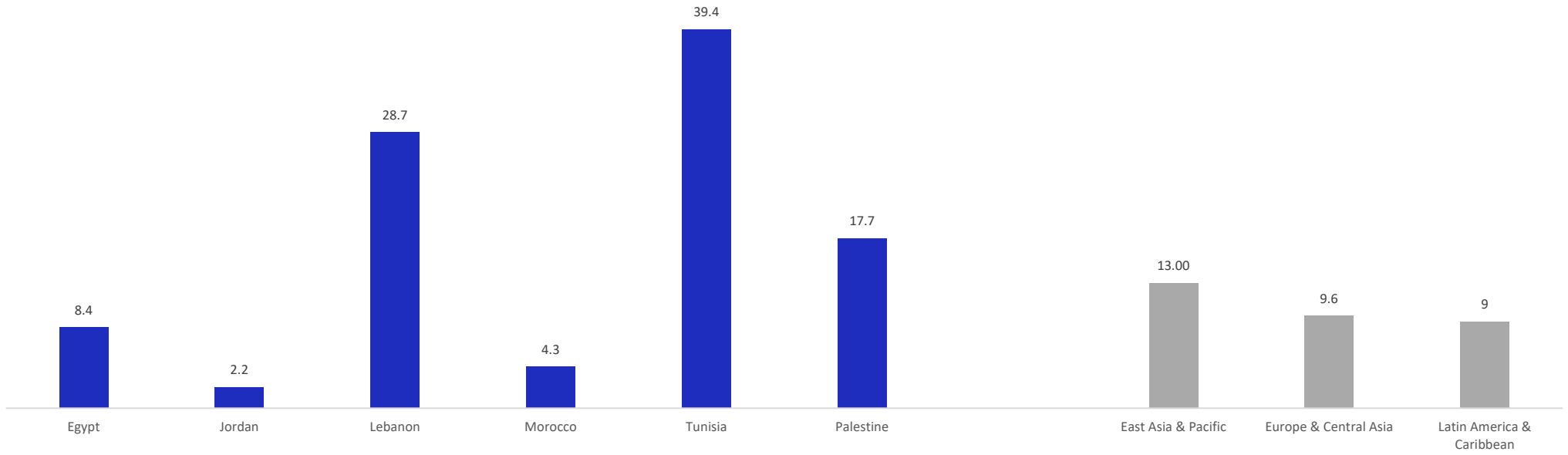
Morocco has made substantial investments to improve the quality of Tangier port, which in 2019 became the largest port in the Mediterranean in terms of capacity after the opening of new terminals. The quality of the port infrastructure in Tunisia has been decreasing over the last years. In Tunisia, Radès port, the main deep seaport, suffers from significant challenges, including significant delays and low workers productivity.



Source: World Economic Forum, (1=extremely underdeveloped to 7=well developed and efficient by international standards).

With also a relative better functioning financial sector than in Tunisia

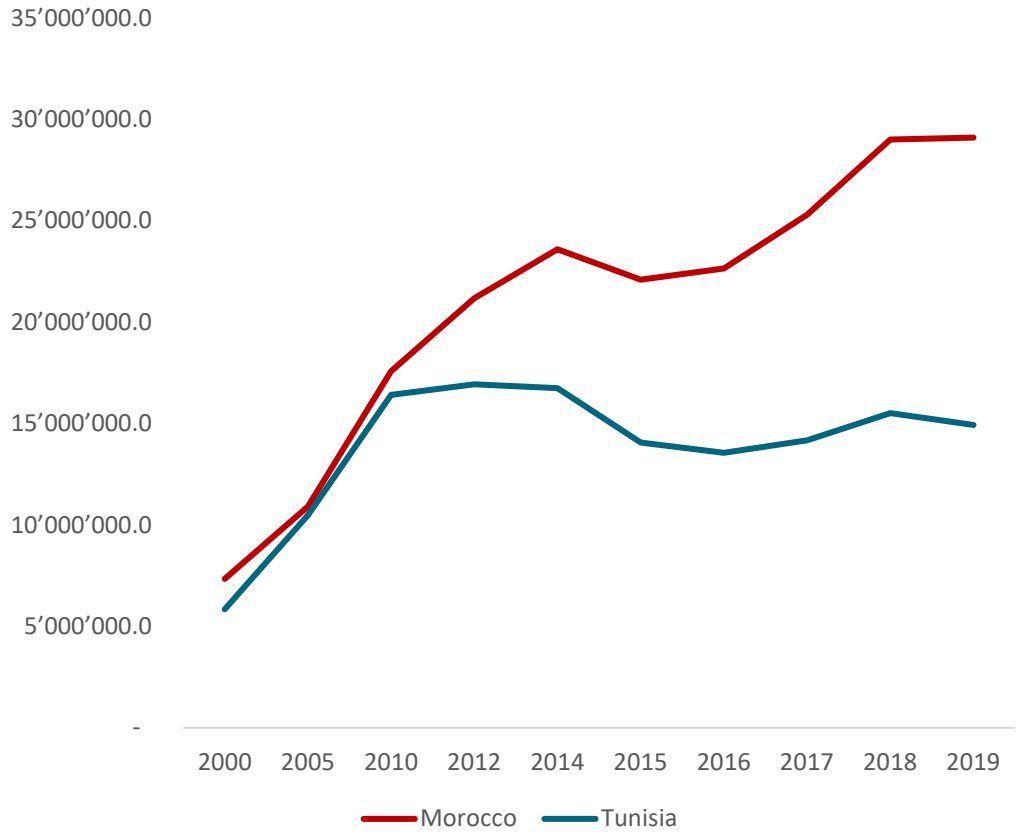
Share of enterprises declaring access to finance as their biggest challenge



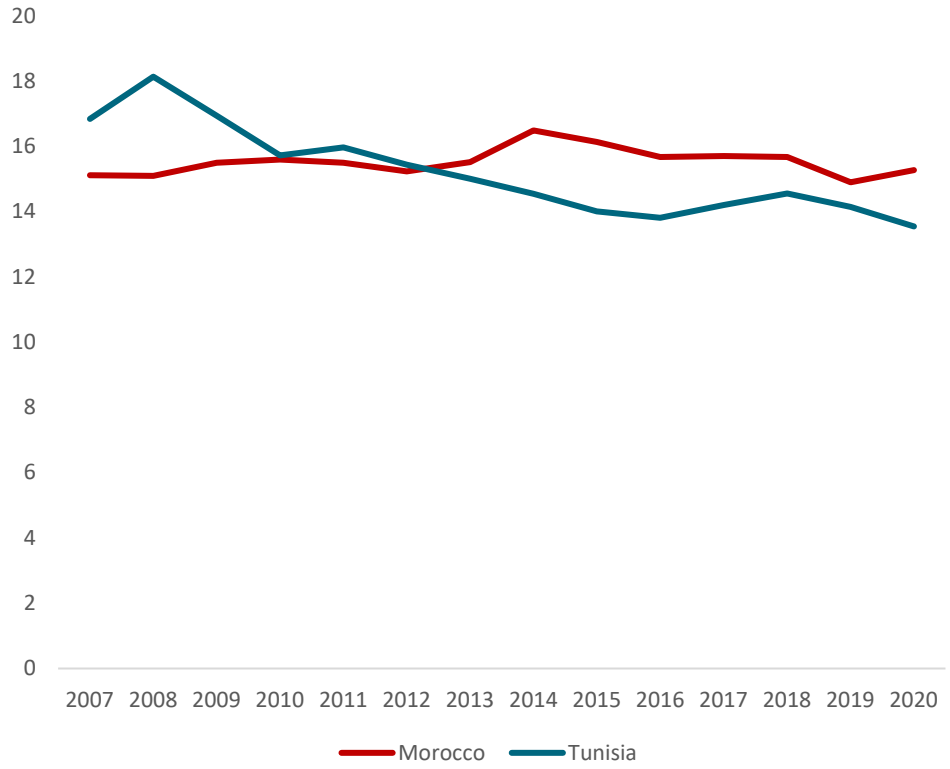
Source: World Bank Doing Business and Enterprise survey data, 2019.

This divergent path is reflected in a number of development indicators

Evolution of goods exports Morocco and Tunisia (US$ thousands)



Manufacturing value added (% GDP)



Source: UNCTAD

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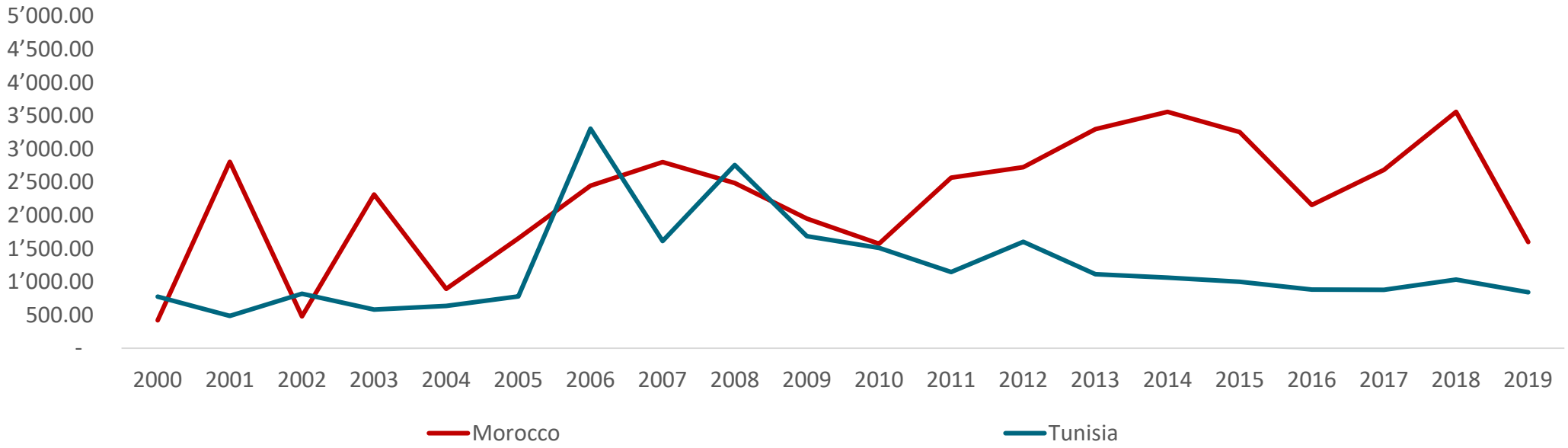
This divergent path is reflected in a number of development indicators

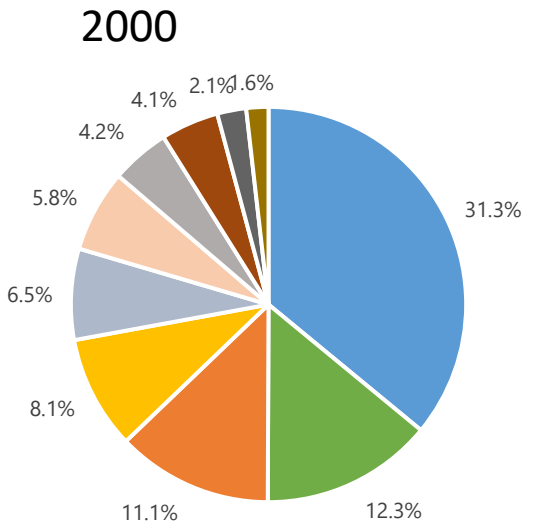
Evolution of FDIs inflows (US$ million)

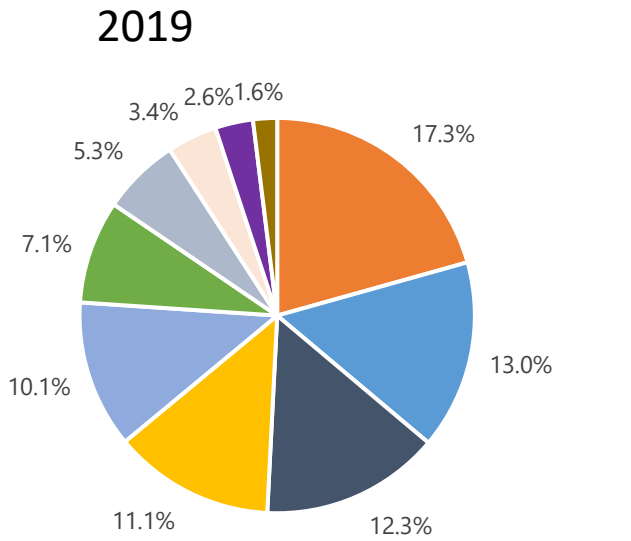
Morocco and **Tunisia** received the same levels of FDI from 2008 to 2010. This dynamic changed after the 2011 social movements started in Tunisia. Morocco has benefitted from a relatively stable economic and political environment, which played to the country's advantage in terms of FDI. The gap between Tunisia and Morocco continued to widen until 2019, when FDI flows to Morocco decreased by 55 per cent to US$1.6 billion. FDI inflows to Tunisia have decreased constantly since 2011, likely affected by the political instability that led to the formation of eight governments in only ten years. In 2019, most FDI inflows in Tunisia went to industry, followed by energy and services (US$95 million), with a sharp decline in investment in the services sector



Source: National data

Evolution of top 10 products exported in Morocco between 2000 and 2019

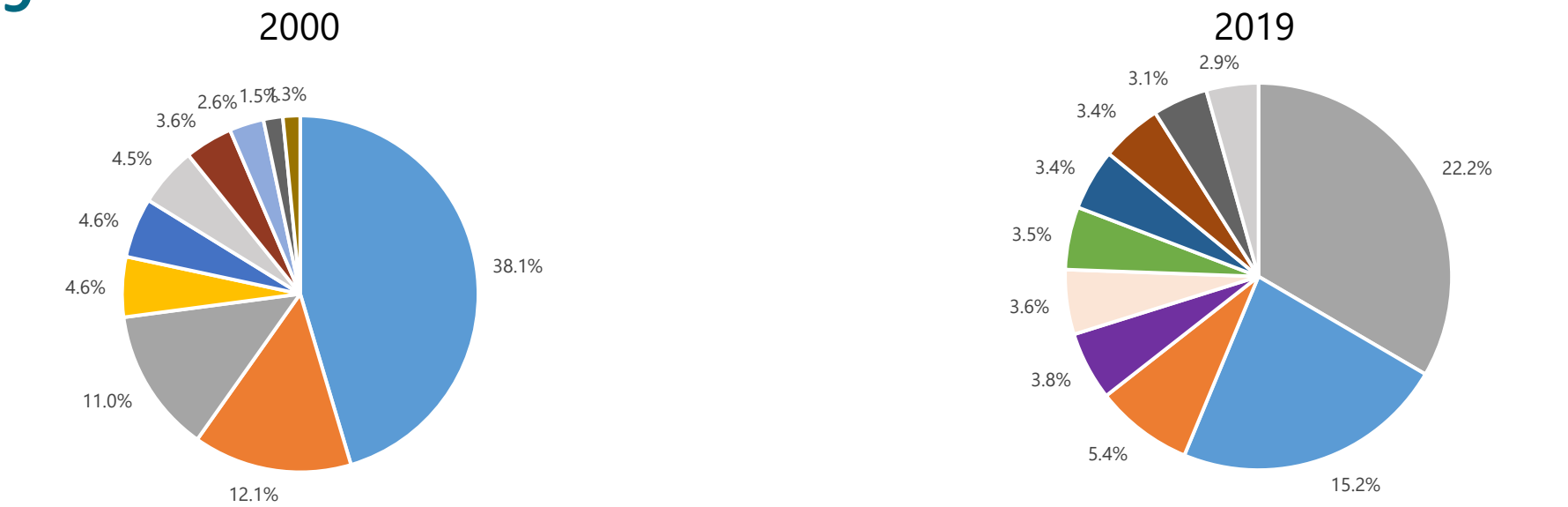




The automotive industry has witnessed the highest level of export growth, driven by investment from anchor enterprises such as Renault, Peugeot-Citroen and the Chinese BYD. This has resulted in a spectacular rise in exports of automotive products (road vehicles – SITC 78) from US$22.3 million in 2000 to almost US$3.6 billion in 2019.

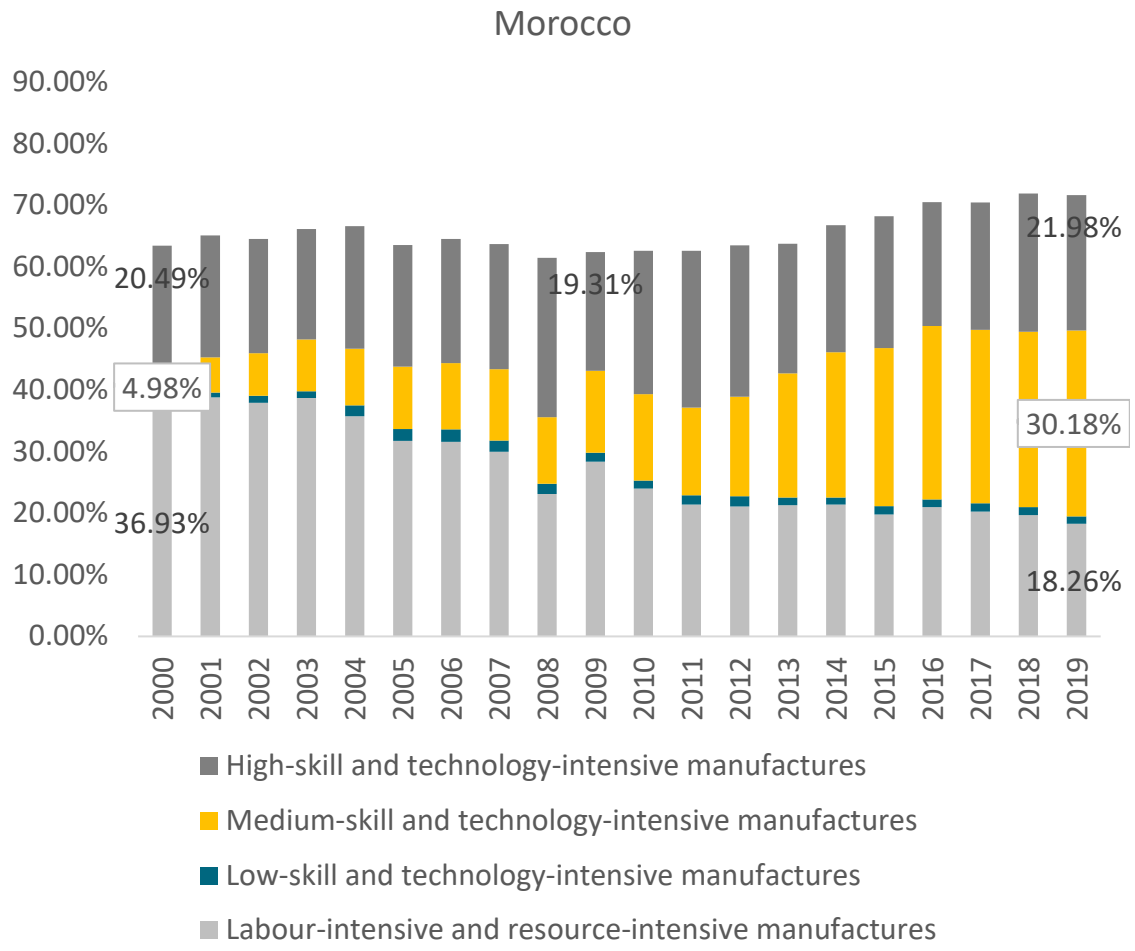
Source: UNCTAD – SITC classification

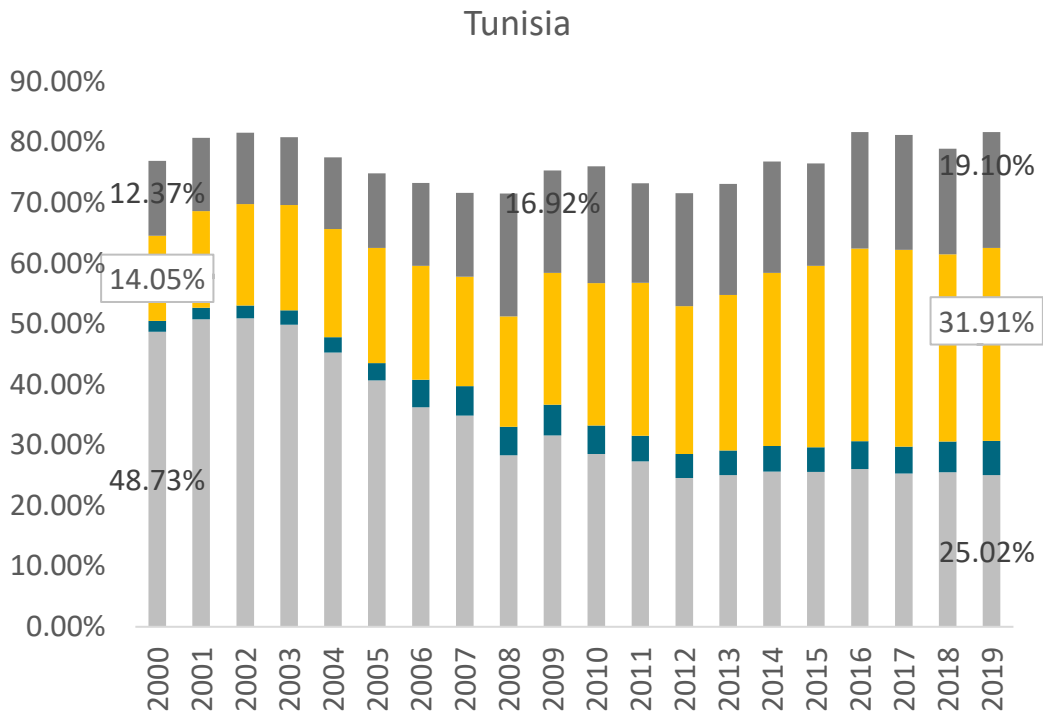
Evolution of top 10 products exported in Tunisia between 2000 and 2019



Source: UNCTAD - SITC classification

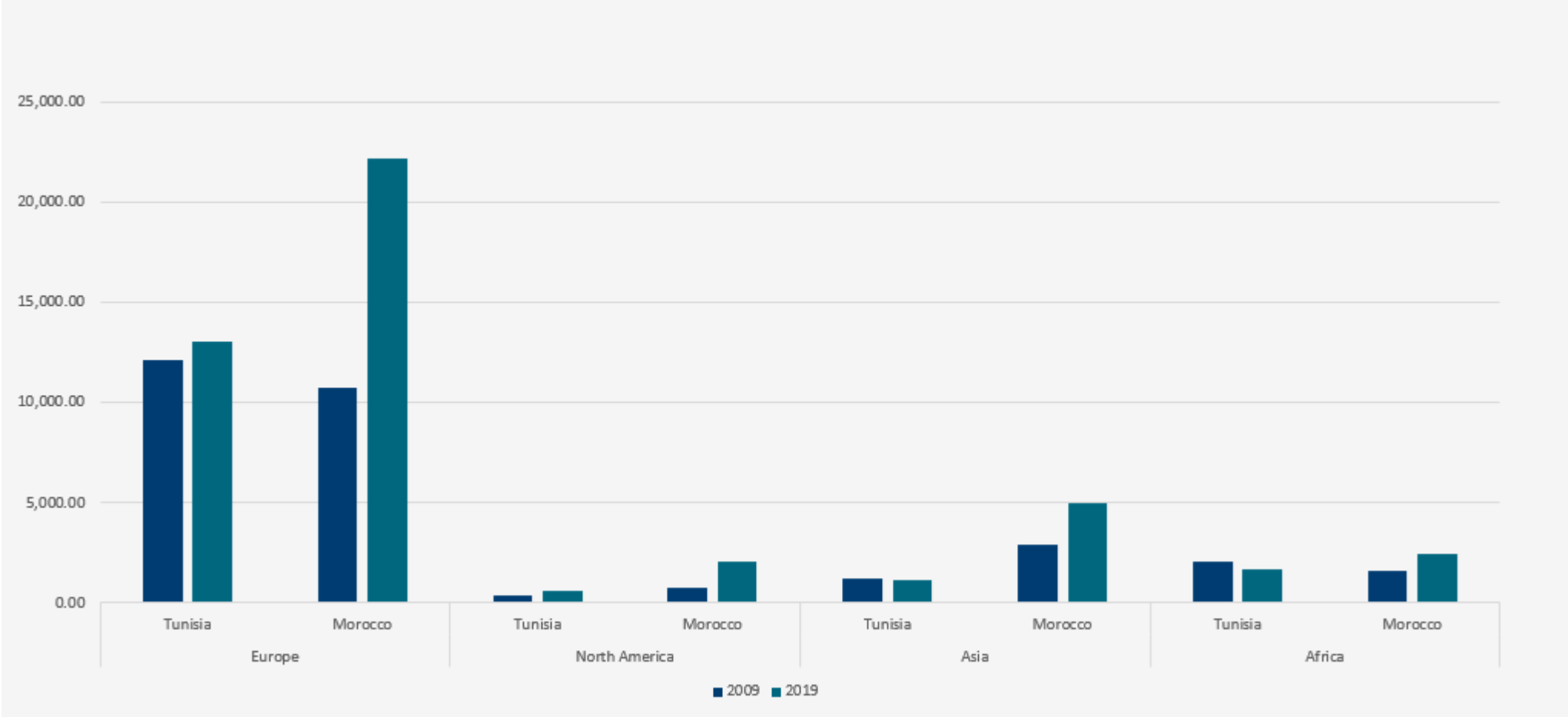
Evolution of intensity of technology in manufacturing goods



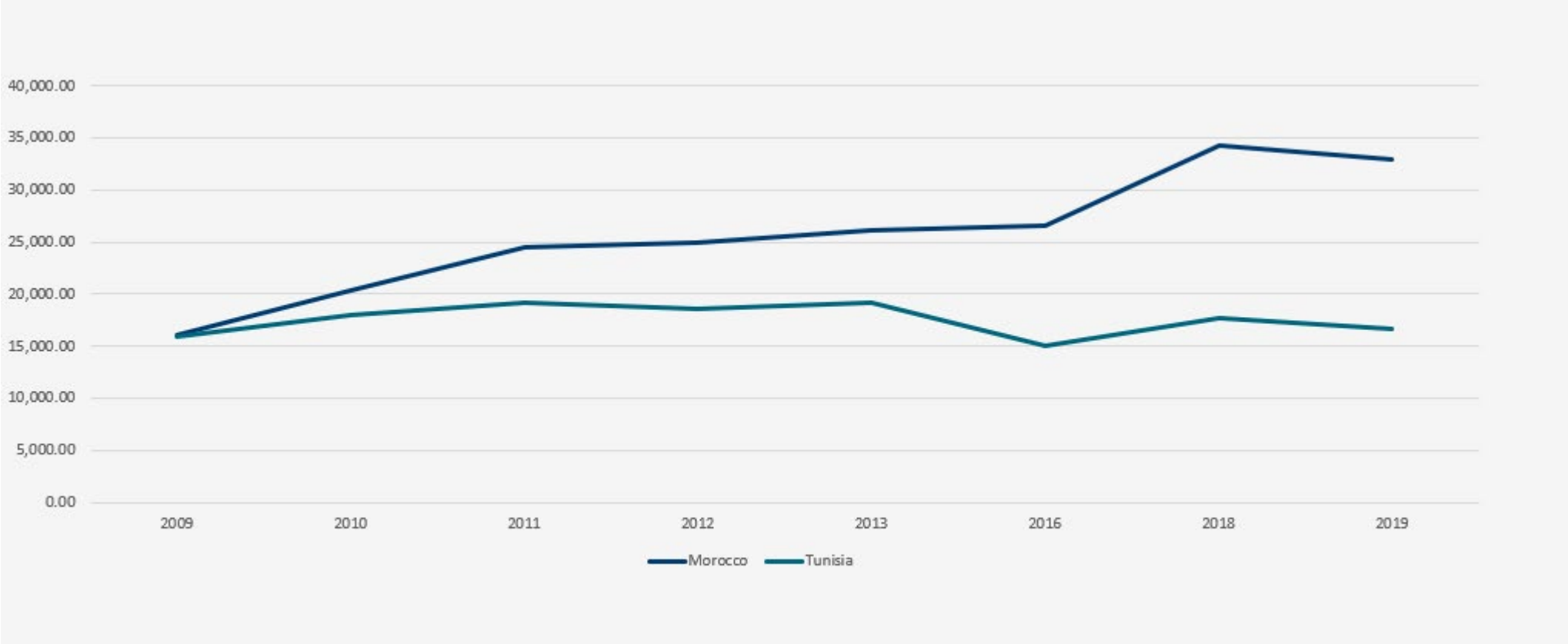


Source: UNCTAD

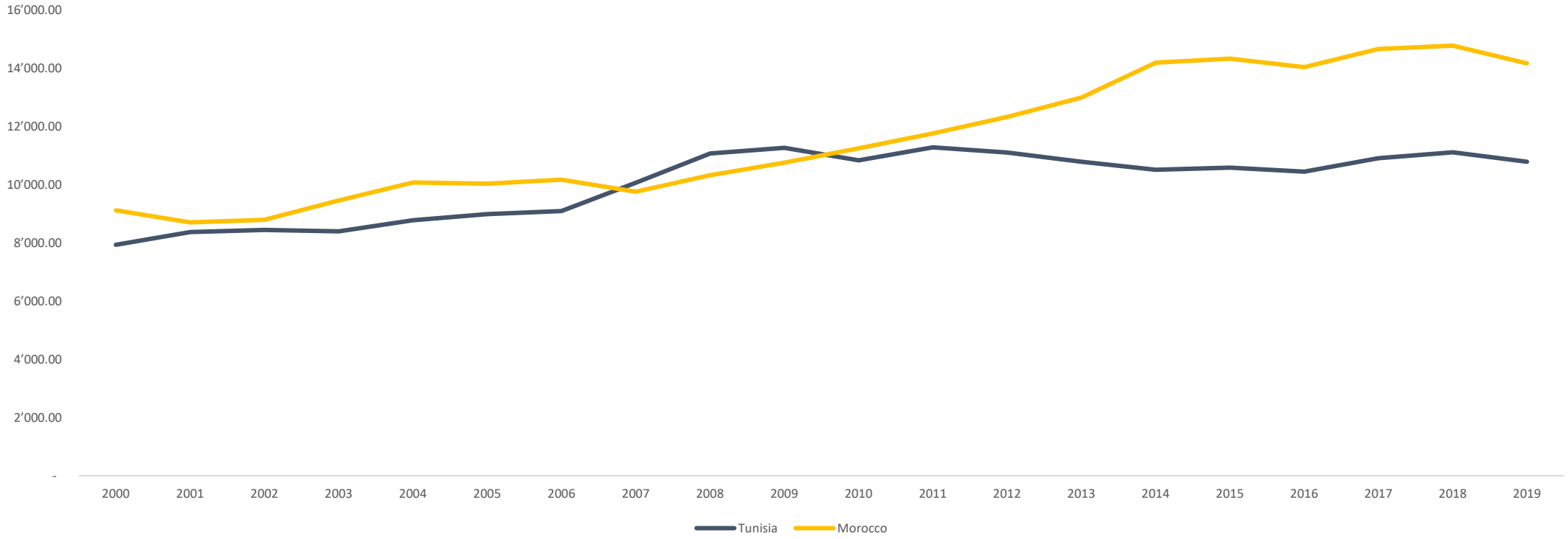
Comparison of the evolution of exports destination between Tunisia and Morocco, 2009–19 (US$ million)



Evolution of exports of phosphate products in Morocco and Tunisia, 2009–19 (US$ million)



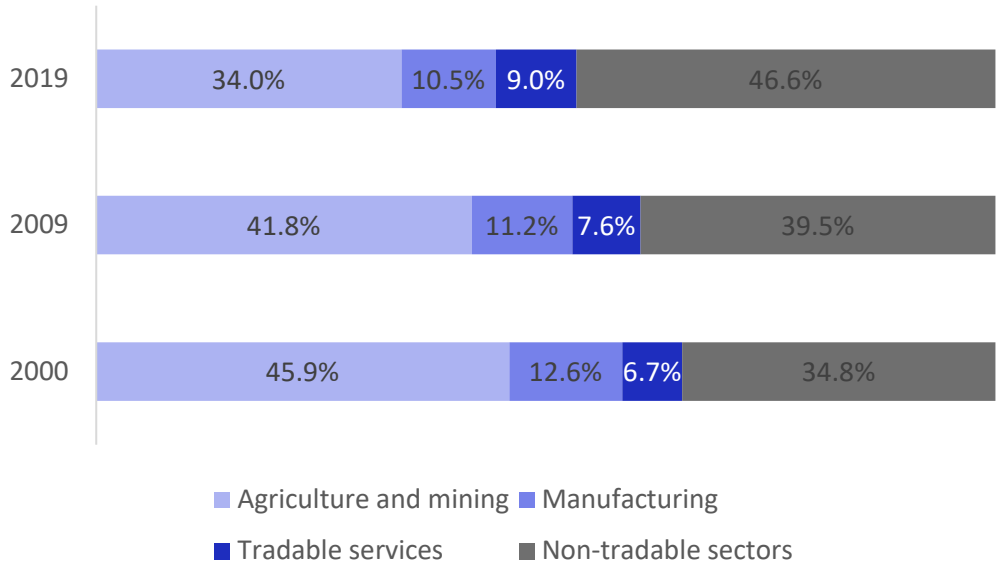
Evolution of labour productivity in manufacturing



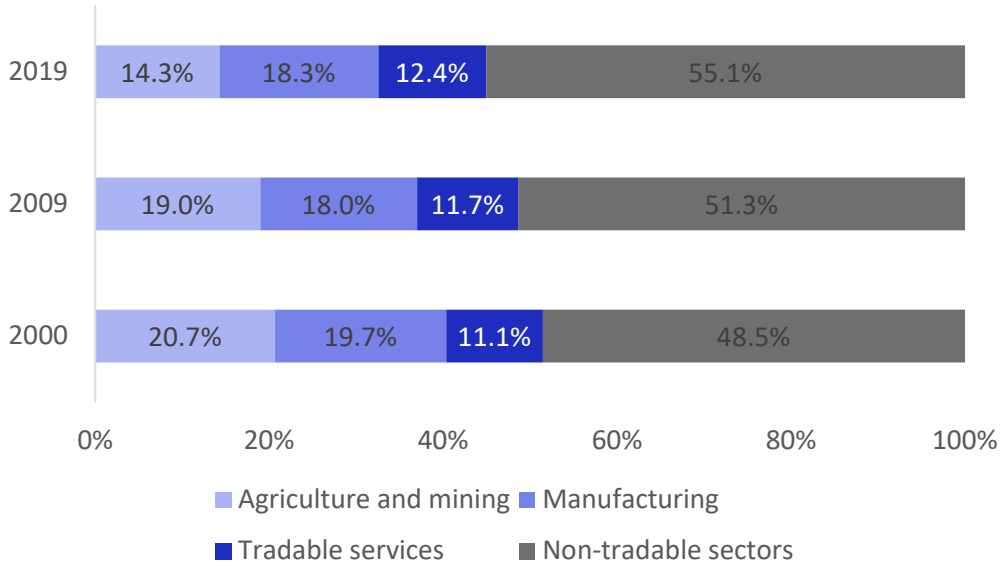
Labour productivity is defined here as MVA (constant 2010 US$)/Total employment, considering the unavailability of the number of hours worked data.

However, the growth of the manufacturing sector in Morocco has not been job generating and Tunisia remains leading in terms of employment

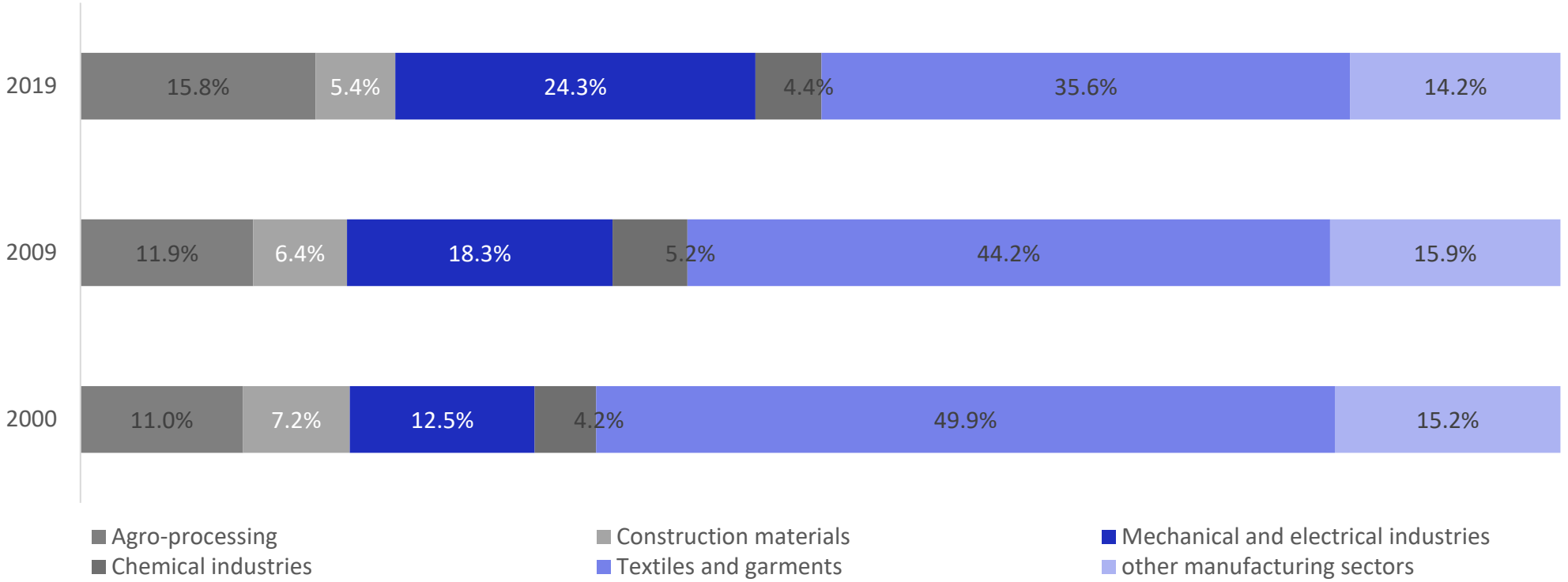
- Evolution of employment share of tradable and non-tradable sectors in Morocco, 2000–19



- Evolution of employment share of tradable and non-tradable sectors in Tunisia, 2000-19



Distribution of employment per sector in manufacturing - Tunisia



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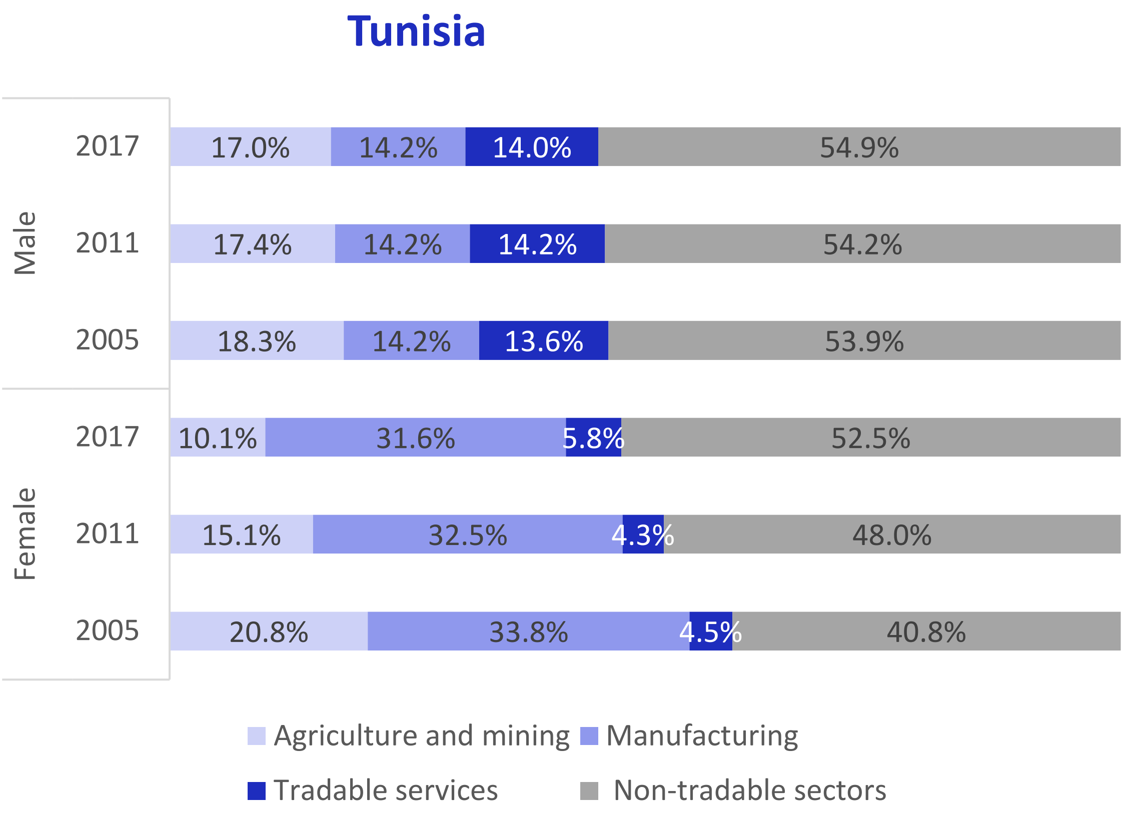
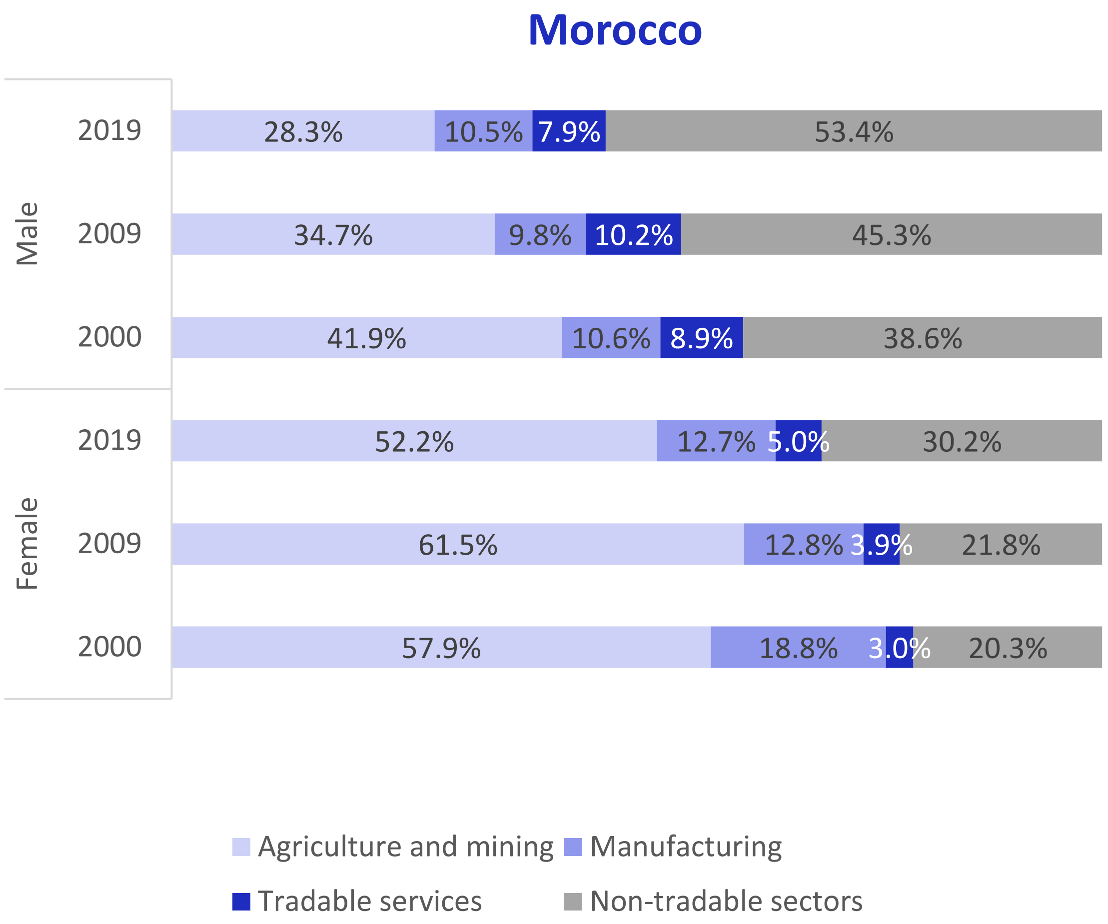
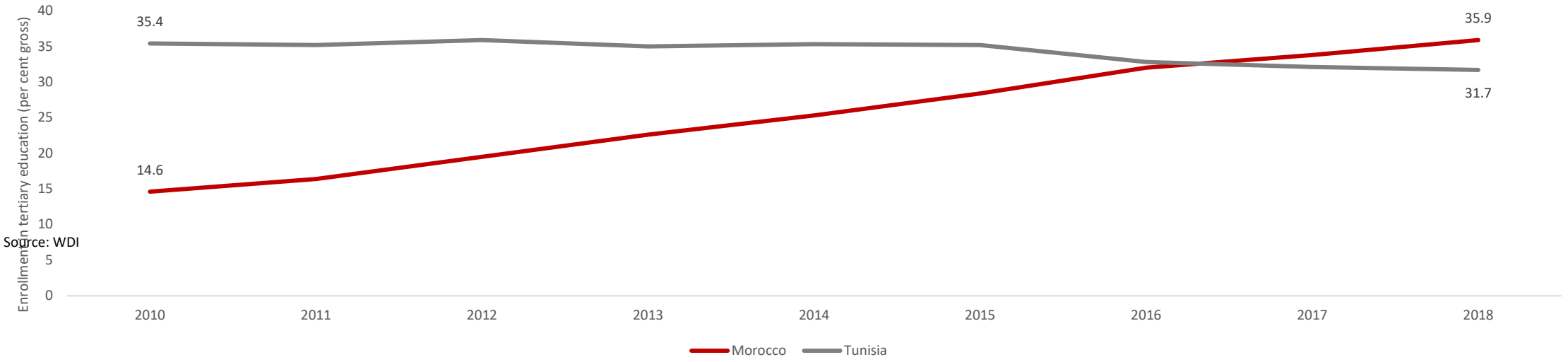
Female employment – Comparison between both countries





The human capital was for long the competitive advantage of Tunisia over Morocco but this is changing

Enrollment in tertiary education (per cent gross) in Tunisia and Morocco since 2010



Source: WDI

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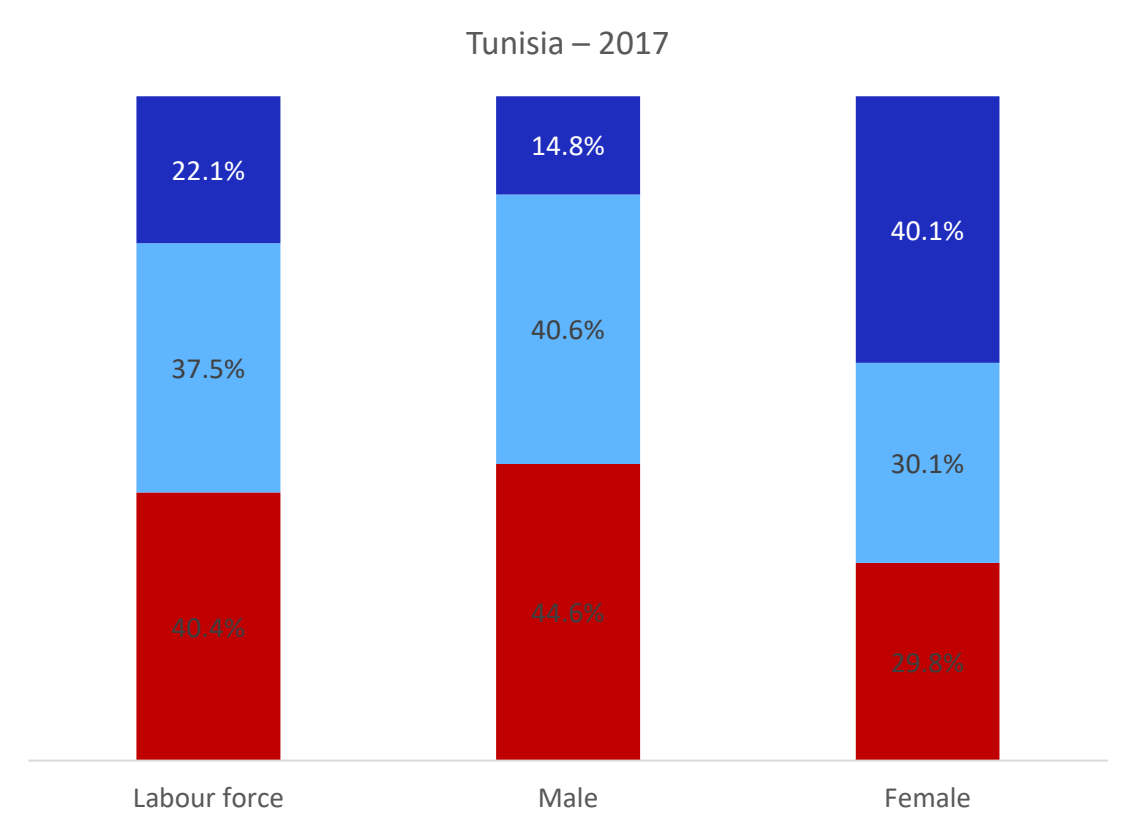
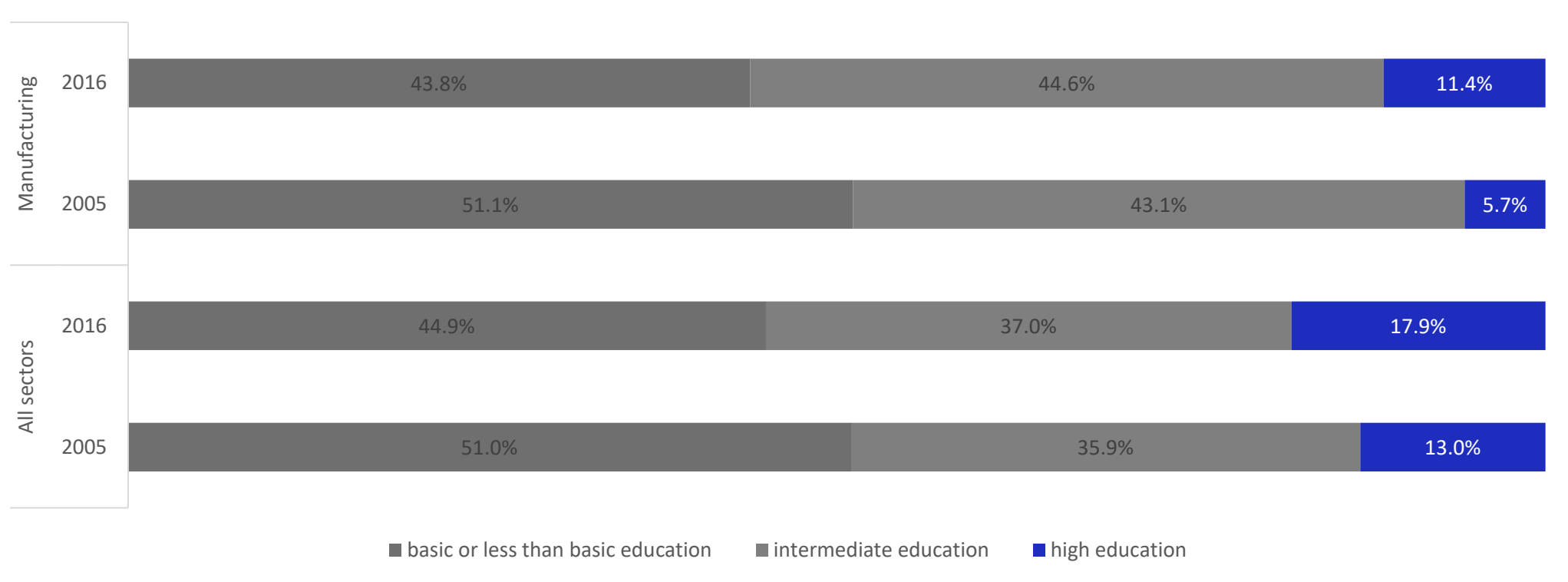
Annex

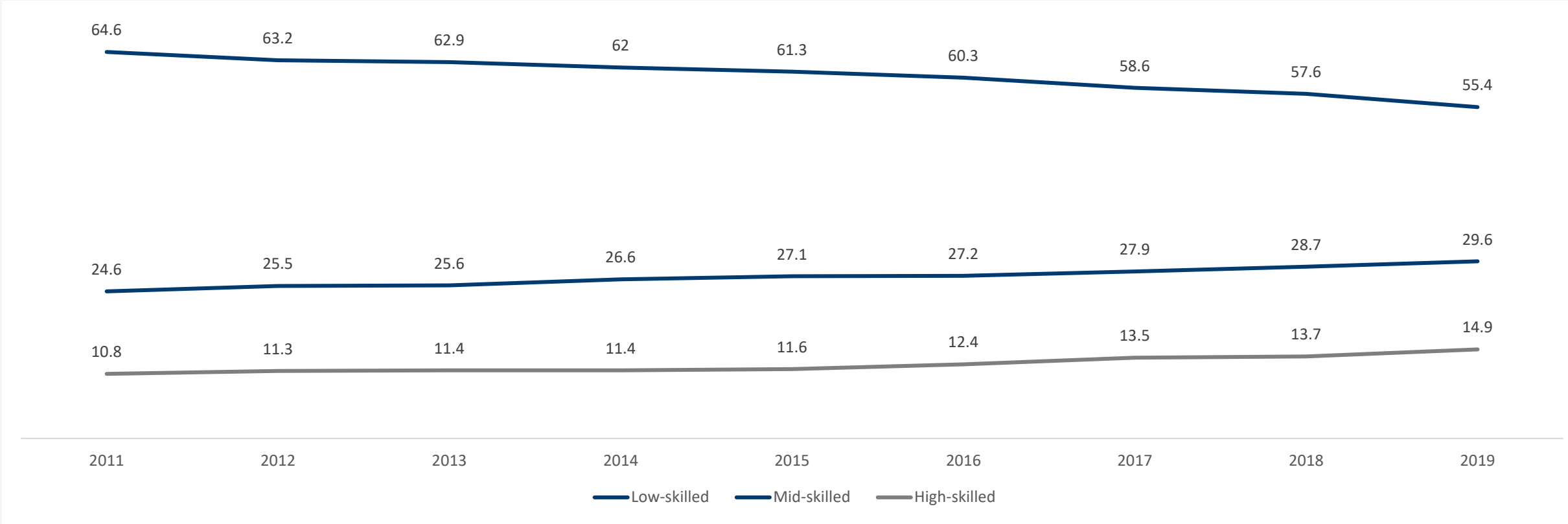
Labour force by levels of education and sex



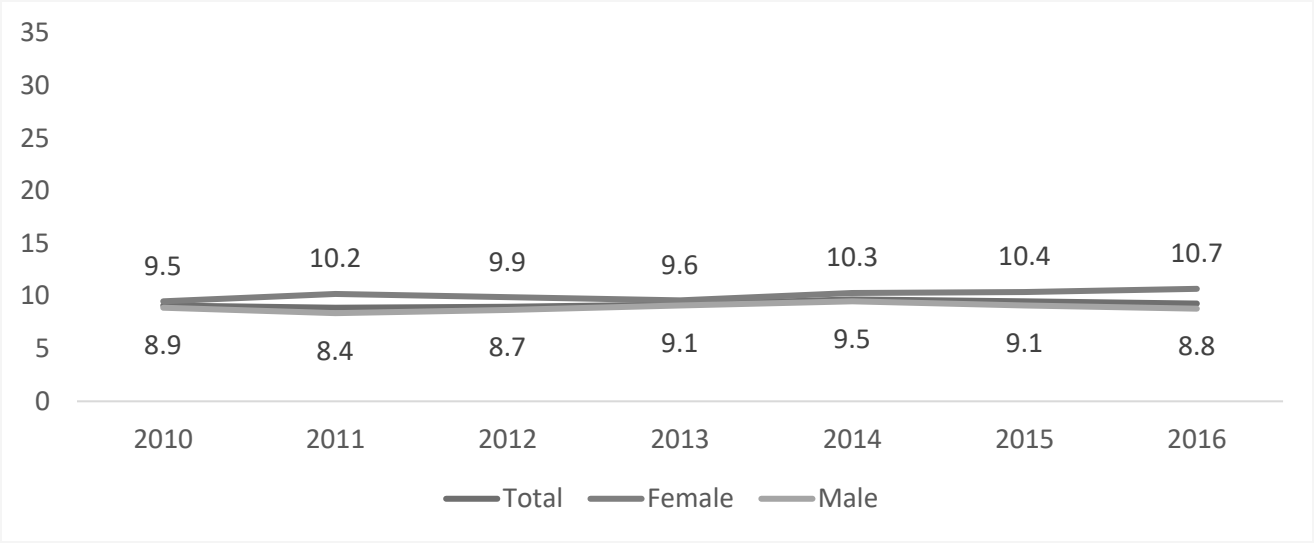
Distribution of level of skills in all sectors and manufacturing in Tunisia, 2005–16

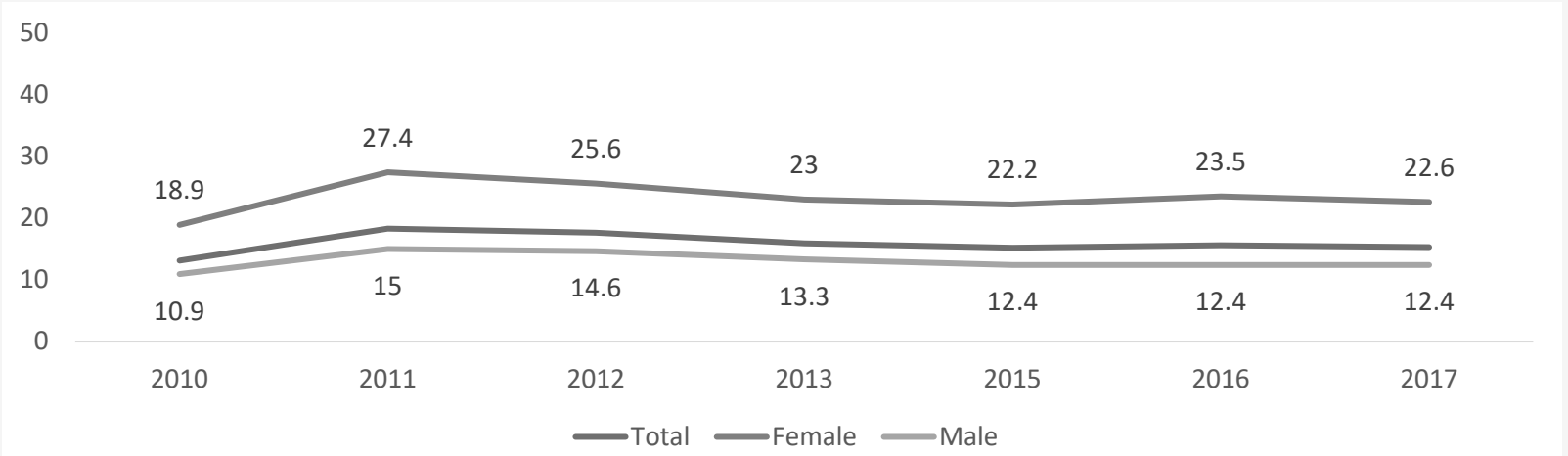


Distribution of level of skills of employed in all sectors - Morocco



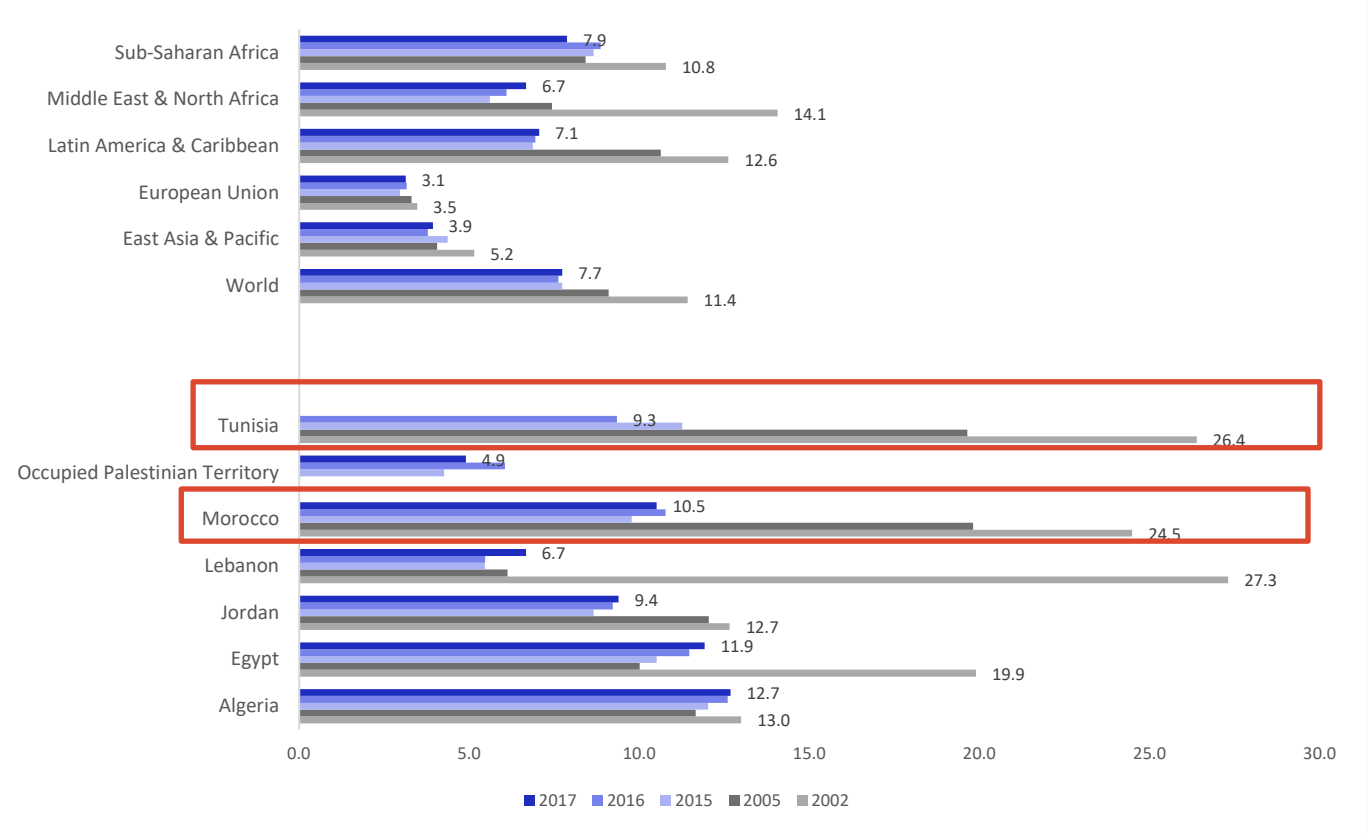
Unemployment by sex - Morocco and Tunisia





Reduction of tariffs continued into 2000s

Evolution of trade tariffs measured by Most Favoured Nation-trade-weighted average duty in comparison with other world regions and with countries in the region (percentage)



Note: Most Favoured Nation (MFN): Normal non-discriminatory tariff charged on imports (excludes preferential tariffs under free trade agreements and other schemes or tariffs charged inside quotas). The Middle East and North Africa region includes the following countries: Algeria, Bahrain, Djibouti, Egypt, Jordan, Kuwait, Lebanon, Libya, Malta, Morocco, Omar, Occupied Palestinian Territory, Qatar, Saudi Arabia, Syria, Tunisia and United Arab Emirates.

Source: , data missing for Libya.

Criteria to evaluate the design and implementation of industrial policies

1. **Selection of sectors:** Is there a selection of sectors, according to a specific and detailed methodology that has been formalized, written and approved? Does the design of the industrial policy follow a “self-discovery” process?
2. **Actionability**: Is the industrial policy accompanied by a clear implementation plan that identified each stakeholder’s responsibility and defined clear objectives?
3. **Carrots and sticks**: Are the incentives and support provided in the industrial policy bound in time and conditional to performance?
4. **Embeddedness/social dialogue:** Was the policy developed in collaboration with different stakeholders, including private sector actors and workers’ and employers’ associations? Is there a systemic use of formalized platforms to engage with the private sector?
5. **Political support:** Does the industrial policy adopted have the approval and the support of the political leadership?
6. **Financial commitment**: Is there a financial commitment from public authorities to implement the policies and the support designed for the private sector?
7. **Institutional settings and transparency**: Do institutions involved in the implementation process have adequate governance, capacity and management to implement these policies? And are there monitoring and evaluation mechanisms that enable data collection, policy evaluation and learning mechanisms? Are the results periodically published?

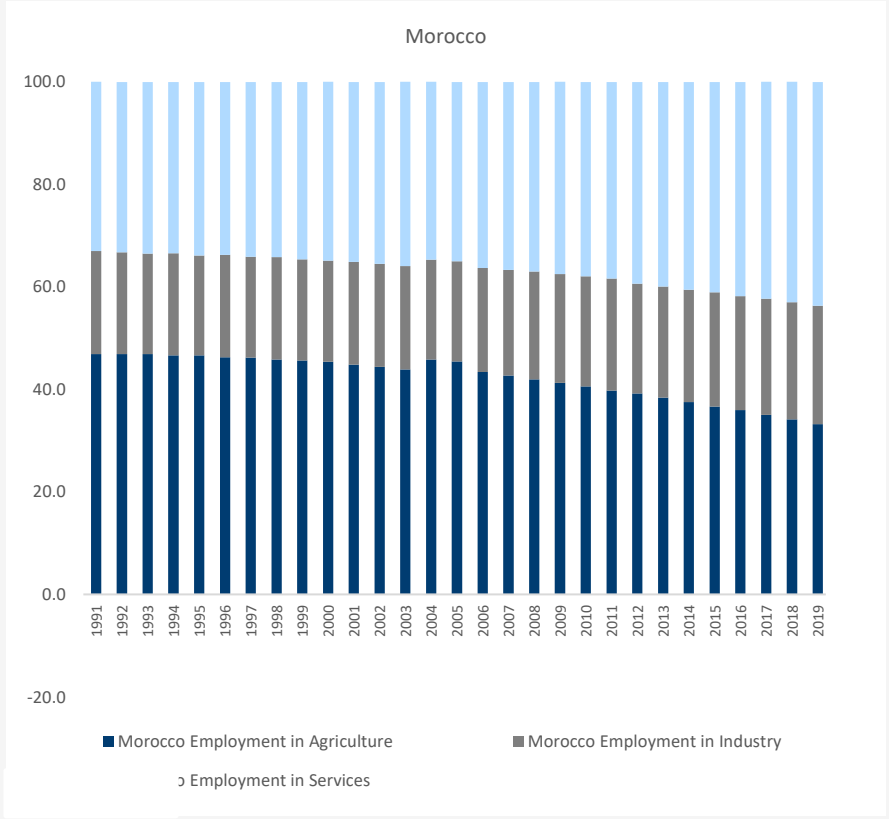
Evaluation of the design and creation process of industrial policies in both countries

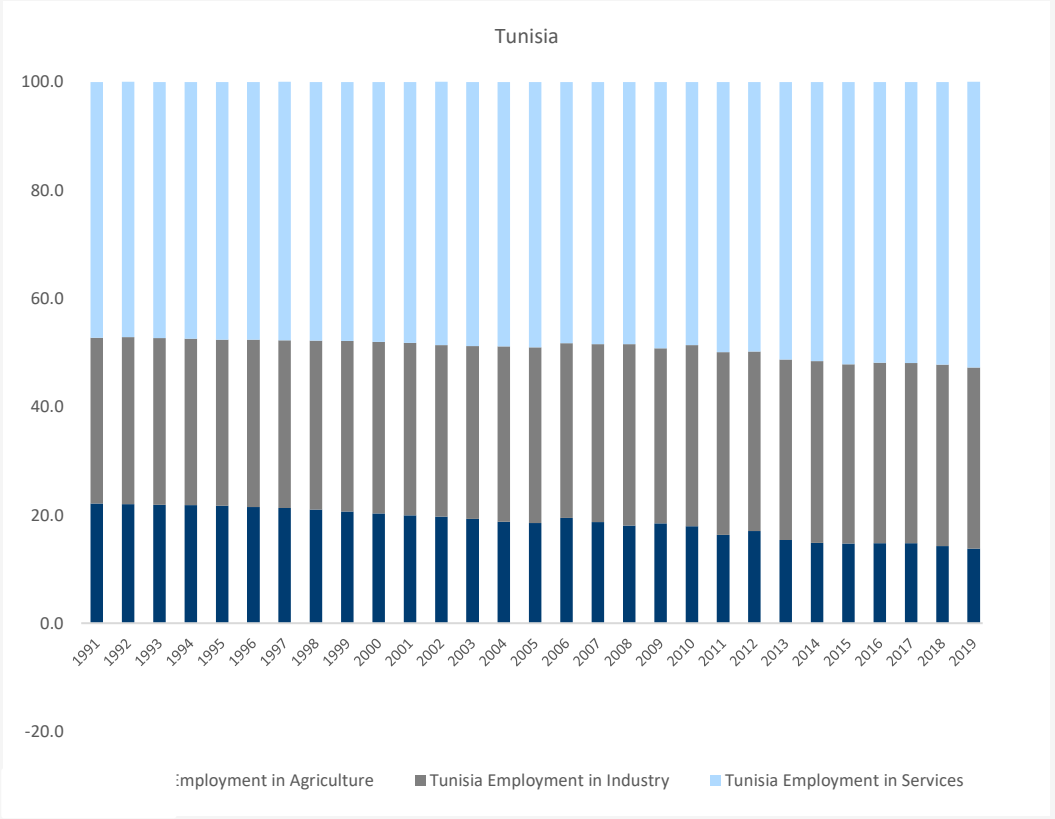
Legend: + = good; o = acceptable; - = needs improvement.

Assessment criteria / Countries	Morocco	Tunisia
Selection of sectors/self-discovery process	+	o
Actionability	o	o
Carrots and sticks	-	o
Embeddedness	+	o
Political support	+	o
Financial commitment	n/a	n/a
Transparency/institutional settings	o	o

Start-up act

The Moroccan economy depends more on agriculture than Tunisia





Both countries witnessed slower structural transformation between 90 and 2010 than before 90s

Both Tunisia and Morocco have made an early shift towards services, bypassing the manufacturing-driven structural change, as levels of GDP per capita remain relatively low in these middle-income countries.

Mouelhi and Ghazali (2020) study the structural transformation in Egypt, Morocco and Tunisia between 1960 and 2010, using the decomposition of labour productivity growth used by McMillan and Rodrik (2011), which aims to identify the source of labour productivity growth, differentiating between within-sector effects and labour reallocation effects.

- Within-sector effects are linked to intrinsic improvements within a sector and demonstrate an improvement in technological capabilities beyond labour.
- Labour reallocation effects translate the productivity gains linked to structural change contribution and to the movement of labour between sectors.

The authors find that the pace of structural transformation in Morocco, Tunisia and Egypt has been higher before 1990 than from 1990 to 2010, during which structural transformation slowed down while countries were still at a low level of development before catching up with the emerging and developed countries.

Why?

Historically, Tunisia and Morocco are competitors in the region. Both countries have relatively same comparative advantages, including the same natural resources (such as phosphate) and they both export to the same markets (mainly European countries). Both countries have historically focused on the same sectors, starting from textiles in the 1970s and 1980s and more recently on more complex and skill-intensive sectors such as pharmaceutical, automobile and aeronautics. Over the past decade, however, Tunisia and Morocco have been on a diverging trajectory, despite recording very similar export levels before 2010. Since 2009, this dynamic has shifted, with Moroccan exports increasing at a much higher pace than Tunisian ones. Three main reasons can explain this:

- First, Morocco has signed an FTA with the United States, effective since 2006, which significantly increased Morocco's exports to the USA and provided Moroccan exports a huge additional market compared to Tunisia.

- Second, the export of phosphate products in Tunisia decreased significantly after 2011 due to the continuous social crisis in the Gafsa mining area. On the other hand, Morocco, the other major phosphate producer and exporter in the region, undertook significant reforms starting in 2008 to improve the governance and functioning of the OCP (Office Chérifien des Phosphates), the state-owned enterprise in charge of exploiting the country's phosphate resources. OCP became a corporation in 2008 As a result, exports of Moroccan phosphate products were double in value to the Tunisian ones in 2019, after having been at the same level in 2009 . This widening gap in phosphate exports might explain why Morocco's exports to Europe increased significantly more than Tunisia's between 2009 and 2019.

- Third, Morocco has relatively diversified its export destinations compared to Tunisia, including increasing exports to Asia and Africa between 2009 and 2019. For instance, Morocco's exports to Asia doubled while Tunisia's exports to the continent remained at the same level between 2009 and 2019. Also, Morocco has been intensively investing in sub-Saharan African countries over the past decade, with an increasing level of FDI outflows to the region, which significantly increased its exports to the African continent. Contrary to this dynamic, Tunisian exports to Africa decreased between 2009 and 2019.

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