Overview and Empirical Analysis of the Free Trade Agreement between the United States and Morocco

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Abstract

Trying to reduce its trade dependence on the European Union (EU) and to diversify its suppliers and clients, Morocco opted to sign trade agreements with other trading partners from Africa, Asia and America. Following this strategy, in 2004, Morocco signed a free trade agreement (FTA) with the United States of America (USA). The FTA went into force on 1 January 2006. This agreement was supposed to boost trade between the two countries. During 2006, trade between Morocco and the USA increased of 43.89 %: Morocco's import from the USA increased by 66.78 % whereas its export did not rise beyond 16.94 %. Furthermore, cereals import increased. Hence, in the short run, the FTA seems to be advantageous for the USA and detrimental to Morocco's agriculture.

Key words: *Free Trade Agreement, Morocco, United States, agricultural products.*

Résumé

En essayant de réduire sa dépendance commerciale de L'Union Européenne et de diversifier ses fournisseurs et clients, le Maroc a signé des accords de libre échange (ALE) avec des partenaires d'Afrique, d'Amérique et d'Asie. Ainsi, en 2004, le Maroc a signé un accord de libre échange avec les Etats Unis d'Amérique (USA) qui est entré en vigueur le 1 janvier 2006. Cet accord était censé encourager les échanges commerciaux entre les deux pays. Un an après la mise en vigueur de l'ALE, le Maroc a vu son commerce avec les USA s'accroître de 43,83 %; en réalité, les importations sont augmentées de 66,78% alors que les exportations n'ont vu qu'une amélioration de 16,94%.

***Mots clés**: Accord de libre échange, Maroc, Etats Unis d'Amérique, produits agricoles.*

Introduction

On March 2004, the USA and Morocco signed a FTA, which entered into force on January 2006. Negotiations for the FTA were started in 2003. The FTA was meant to strengthen bilateral ties and to improve trade and investment flows. More than 95% of bilateral trade in consumer and industrial products became duty-free immediately upon entry into force of the agreement. A FTA was perceived as being able to give political and economic advantages to both countries. For the USA, it meant not only signing the first FTA with an African country, but furthermore with the second state of the Middle East and North Africa (MENA) Region. The main objective was to create a big free trade zone between the USA and the MENA Region. Whereas, Morocco expected to diversify its clients and suppliers in order to reduce its trade dependence upon the EU.

Throughout negotiations, the agricultural sector was considered as sensitive. Although the USA pressed to include agricultural products, both parties eventually decided to authorize transition periods varying from two to eighteen years according to the product. During negotiations, the Moroccan party had recommended giving cereals a special treatment before their total liberalization, whereas, the USA found that the FTA had to include also cereals.

First, the aim of this study is to measure the USA-Morocco trade evolution fourteen months after the FTA enforcement. Second, it is meant to measure the commercial progress of agricultural products during this period and to observe if Morocco is earning or not thanks to the signature of this FTA. Hence, the main objective of this study is to analyze short-term impact of the FTA enforcement by comparing the USA and the Moroccan trade before and after the FTA entry into force.

1. Trade liberalisation and Economic development

A free trade area is established between two or several countries that agreed to eliminate tariffs, quotas and preferences on most (if not all) goods marketed between them. On the other hand, the World Trade Organization deals with the rules of trade between nations at an almost global level; it is responsible for negotiating and implementing new trade agreements and is in charge of policing member countries' adherence to all the WTO agreements, signed by the world's trading nations and ratified in their parliaments.

The debate on international trade is enriched by numerous contributions that can be summarized into two main positions of international policy: free trade policy and protectionist policy (Caffè, 1978). According to Ricardo's theory of comparative advantages and to the Heckscher–Ohlin theory, the free trade policy states that only through free trade it is possible to achieve the optimum use of natural resources in terms of maximizing welfare, both at national and international level (Boatto and De Francesco, 2003; Salvatore, 2002). On the other hand, the protectionist policy is based on the principle of unused factors such as em-

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ployment (Wood, 1994). Some authors state that by screening results of the comparative advantages theory, trade between poor and rich countries is able to reduce welfare level in both types of countries. Admitting the free trade positive effects, there is a possibility as Krugman states (2002) that those who benefit and those who suffer from the market internationalisation costs are not the same subjects and are not necessarily within the same generation. The market alone cannot solve the problem of social benefits redistribution and needs an equilibrated intervention.

Over the last two decades, a large number of empirical studies found that even though international trade (with few exceptions) has not operated as an engine of growth for today's developing countries as it did for the recent settlement in the nineteenth century, it has nevertheless positively contributed to the growth of most of today's developing countries (Bahami-Oskooee, 1991; Boggio and Tirelli, 1989; Cline, 1984; Kravis, 1970; Ram, 1987; Reidel, 1988; Salvatore, 1983; Salvatore and Hatcher, 1991; Krugman 2002). There are several important ways by which international trade contributes to economic development even under the current changed international conditions (Salvatore, 1994; 2002):

- Trade can lead to the full utilization of otherwise underused domestic resources: through trade, a developing nation can move from an inefficient production point below its production possibility frontier, with unutilized resources because of insufficient internal demand, to a production point on its production frontier. For such a nation, trade would represent a vent for surplus, or an outlet for its potential surplus of agricultural commodities and raw materials. This has indeed occurred in many developing nations, particularly those in Southeast Asia and West Africa;
- By expanding the size of the market, trade facilitates the division of labour and, therefore, the economies of scale;
- International trade is the vehicle for the transmission of new ideas, new technology, and new managerial and other skills;
- Trade also stimulates and facilitates the international flow of capital from developed to developing countries;

In several large developing nations, such as Brazil and India, the import of new manufactured products has stimulated domestic demand until efficient domestic production of these goods became feasible;

- International trade is and excellent antimonopoly weapon (when allowed to operate) because it stimulates greater efficiency of domestic producers to meet foreign competition. This is particularly important to keep low the costs and price of intermediate or semifinished products used as inputs in the domestic production of other commodities.

Criticisms of international trade can match this impressive list of benefits with equally impressive list of allegedly harmful effects of trade. However, since a developing nation can always refuse to trade if it gains nothing or loses, the presumption is that it must also gain from trade. It is true that when most of the gains from trade accrue to developed nations, there is great deal of dissatisfaction and justification for demands to rectify the situation, but this should not be construed to mean that trade is actually harmful. One, of course, could always find cases where, on balance, international trade has actually hampered economic development. However, in most cases, it can be expected (and the empirical evidence to date overwhelmingly seems to show it) that international trade can provide invaluable assistance to the development (Bhagwati, 1978; Bliss, 1989; Chenery, 1961; Greenway, 1987; Grilli, 1990; Grilli and Yang, 1988).

2. Overview of trade dynamics in Morocco

Following independence that occurred in 1956, Morocco's development strategy was primarily based on import substituting industrialisation and agricultural self sufficiency in a highly protected domestic market. Trade reform started during the 1980's, as a result of pressure, from the World Bank, due to a payment crisis in 1983. Morocco almost eliminated quantitative restrictions on imports and reduced maximum tariffs from 165% to 45% over a six-year period. The major accomplishment of tariff reform was to reduce dispersion in tariff protection within the manufacturing sector. Anyway, average import penetration just slightly increased, in part due to domestic contraction combined with devaluation (Currie and Harrison, 1997). Nevertheless, in the 1990's Morocco was still far from being characterized by an open economy. An important contribution to Moroccan liberalisation process has come from multilateral trade agreements (table 1) that have been signed with different partners since the mid-1990s. Since the 1990's, Morocco has been an active participant in the General Agreement on Tariffs and Trade (GATT) round of mul-

Table 1 – *Trade Agreement between Marocco and its trading partners.*

Country	*Nature of the Agreement*	*Signature Date*	*Date of Entry into force*	*General Overview*	*Agricultural Trade Particularities*
EU	Association	26/02/1996	01/03/2000	Creation of a free trade area to the horizon of 2012	*Agricultural exports of the EU profit from preferential tariff quota, whereas Moroccan exports are subject to one duty-free tariff quota with or without export calendar and entrance fee*
USA	Free Trade Agreement	02/03/2004	01/01/2006	Establishment of a Free Trade Area	
Egypt	Free Trade Agreement	27/05/1998	29/04/1999	Establishment of a Free Trade Area over 12-years period	*Trade of agricultural products has been left to be examined later*
Jordan	Free Trade Agreement	16/06/1998	21/10/1999	Creation of a free trade area over 12-years period	*Trade of agricultural product has been left to be examined later*
Turkey	Free Trade Agreement	07/04/2004	01/01/2006	The agreement regards certain industrial products coming from Turkey and imported in Morocco; certain industrial products coming from Morocco and imported in Turkey	*Granting of preferences under the right of importation in the framework of quotas*
Tunisia	Free Trade Agreement	16/03/1999	16/03/1999	Progressive dismantling of customs duties and having same effect taxes leading to 0% rate by 01/01/2008	

tilateral negotiations. However, it is clear that to take advantage of these openings, the Moroccan economy needs to become more competitive. Following the Barcelona Agreement, an accord between Morocco and the European Union (EU) was agreed in February 1996. This agreement envisaged a freeing up of trade in industrial goods over twelve years from the implementation date. Given that Morocco already had tariff free access for most goods to EU market, the Association Agreement largely involved asymmetric reduction of tariffs by Morocco on EU exports.

Moroccan trade is heavily dominated by Europe, which is the destination and origin of more than three-quarters of exports and imports. France is the main trading partner, accounting for one-third of exports and over one-fifth of imports. Spain is the second trading partner with which Morocco's trade is increasingly developing, typically taking 16-18% of exports and providing 10-12% of imports. The United Kingdom, Italy and Germany are other important trading partners.

During 2004-2005, Morocco signed further trade and investment agreements with a range of countries in Eastern Europe, Asia, Latin America and Africa. These accords will lead to a wider dismantling of tariffs over the longer term, a diversification of trade partners and a lower dependence upon the EU economy. The FTA with the USA was signed in June 2004 and was expected to come into effect on March 2005, then delayed until January 2006. In conclusion, the Moroccan economy has developed behind highly protective trade barriers for many years, but has made significant steps towards the liberalisation of its trade regime over the last 10 to 15 years, as well as significant steps towards greater regional integration with its Northern and Southern neighbours.

The economic significance of the agricultural sector in Morocco can be measured by its contribution to the GDP and by its sizeable share of total export earnings; in fact, agriculture contributes to 15 to 20 % of the total GDP. Moreover, agricultural imports represented nearly 14% of total imports value in 2006, which was a good year for agriculture thanks to the abundant rainfall that permitted high cereals yield. Agricultural product import mainly consists of cereals (common wheat), sugar and dairy products. On the other hand, agricultural exports represented almost 21.1% of total exports value in 2006 (Office d'échanges, 2004). The irrigation sector ensures, on average, 75% of agricultural produce exports. Three main products embody two-thirds of agricultural exports: citrus fruits (26%), early products (14%) and processed vegetables (24%). Furthermore, the European Union market absorbs 76% of agricultural exports. Hence, Morocco's agricultural export is restricted by product and destination.

To notice that the agricultural trade balance has considerably decreased in time since the 1970s. It went from a positive balance in 1960s when exports exceeded imports (67% in 1960, 40% in 1970) to a negative balance in the following decades (exports accounted for 42% of imports in 1975, 69% in 1980 and 58% in 1982). This degradation kept being constant and was mainly concerning cereals. When two of the main Morocco's competitors in agricultural products trade, Spain and Portugal, joined EU, the Morocco's export situation became even more complicated (Foreign exchange office, 2007).

3. General background to the USA-Morocco FTA

The FTA covers industrial and agricultural goods, services, telecommunications, customs, intellectual property, employment and environment. Morocco provides preferential market access to all agricultural products according to schedules negotiated on a product specific basis. The Agreement establishes preferential tariff-rate quotas (TRQs) for high quality and standard quality beef, chicken and turkey whole birds, chicken leg quarters and wings, durum wheat, common wheat, almonds and apples. In addition, the Agreement contains a provision ("preference clause") that will give the US exporters of products such as wheat, beef, poultry, corn and corn products, and soybeans and soybean products, market access comparable to Morocco's other trading partners, thereby giving the US exporters a new tool to compete with Europe and other trading partners in the Moroccan market (USADA, 2006).

The FTA represents new opportunities for the US farmers; in fact, the agreement covers all agricultural products and opens the Moroccan market to many USA farm products. The US farmers would benefit from new tariff-rate quotas that grow over time. Moreover, the US wheat producers will benefit from new tariff-rate quotas on durum and common wheat that could lead to fivefold increase in exports over recent levels. These results will give the US farmers a new tool to compete with Canada and the EU, among others, in the Moroccan market. Tariffs on products such as corn and corn products, sorghum, soybean and soybean meal will be significantly cut or immediately eliminated, thus allowing American exporters to respond to Morocco's growing need for foodstuff as its agricultural sector continues to modernize. Morocco will immediately provide duty-free access to products such as pistachios, pecans, frozen potatoes, processed poultry products, pizza cheese and breakfast cereals. Tariffs on other products will be phased out in five years, including walnuts, grapes, pears, cherries, and ground turkey. Almond exports could double under a tariff-rate quota. Tariffs on almost all the US farm exports to Morocco will be phased-out within fifteen years.

The Agreement establishes preferential TRQs for Morocco on beef, liquid dairy products, cheese, milk powder, butter, other dairy products, peanuts, cotton, tobacco, sugar and sugar-containing products, tomato products, tomato sauces, dried onions, and dried garlic. Under these TRQs, the imported (Moroccan) product receives a zero duty for a specific quantity that expands over the implementation period. Volumes imported over the specific amounts have

higher tariffs. The higher tariffs are going to be gradually eliminated over 15 years. Sugar and sugar-containing products also are subject to a net surplus exporter methodology (USADA, 2006).

The FTA between Morocco and the USA exposes the Moroccan agriculture to increased competition for both price and quality. This competitive pressure could provoke an increase in concurrence on the part of Moroccan farms that will shift their uncompetitive products to high added value ones. The FTA's interest lies in structural changes of Moroccan agriculture to make it more competitive and to better exploit the comparative advantages of the country. However, the agricultural sector is more exposed to the FTA risks than other sectors, since it is still vulnerable and cannot compete with one of the most developed agricultures in the world. Cereals and red meats are the two products that would suffer more from high pressure given that the USA is efficient in such productions; the US products are of very good quality and cheaper, whereas Moroccan cereals and cattle production suffer from many natural and structural difficulties.

The FTA's impact on Moroccan agriculture may look favourable, but it is ultimately uncertain. Removing custom duties on certain agricultural products entering the USA from Morocco is undoubtedly a good move. But the question is whether those Moroccan products could compete with subsidised overseas products. There is another question: could production conditions in Morocco be eventually used to justify the setting up of barriers to chemical residues considered as unacceptable by American consumers?

The FTA would pave the way to significantly expanded trade in the future (Ait El Mekki and Tyner, 2005). Abbott *et al.* (2000) justify such opportunities by one of the major features of the "New Economy" that bases trade on niche markets. Trade expansion will concern trade creation and substitution. The Agreement enhances access to Morocco's market of US agricultural products, while at the same time complementing the Morocco's agricultural reform efforts and preserving the economic and social stability in a sector of the Moroccan economy that employs almost one third of the total active population.

4. Potential Sectoral Impact of the USA-Morocco FTA

Under the FTA, trade between Morocco and the USA is expected to increase. That would have significant impact not only on trade between these two countries but also on their trading relationships with their main trading partners. In the case of Morocco, this increment will concern trade creation, which regards its total trade increment. By providing a duty free access to a 300 million American consumers market, the FTA will strongly stimulate Moroccan exports in this market. On the other hand, the increment will concern trade diversion; this regards substitution of Morocco's intraregional clients or suppliers by American ones. The most important trade diversion will affect the EU and particularly France and Spain, two of the biggest Moroccan trading partners.

In the following part, we try to describe the USA-Morocco FTA potential impacts on some selected agricultural goods. Those goods are the most exchanged between the USA and Morocco and their trade increment is expected.

4.1 Cereals

Morocco is a substantial producer, consumer and importer of wheat used in a limited part for animal feeding and in a large part for human consumption. The Moroccan corn production is limited. There were about 1.5 million farmers in Morocco growing wheat and barley in 2003. The Moroccan Government provides price support for bread wheat sold to licensed agents, and a retail wheat flour subsidy for low income consumers covering about 1 million tonnes of bread flour, about one sixth of domestic wheat consumption.

Moroccan farmers grew 1 million tonnes of durum wheat, 1.9 million tonnes of bread wheat and 1.3 million tonnes of barley per year in 1998-2002, although the annual production considerably varied depending upon growing conditions and rainfall. Moroccan wheat production has irregularly grown from 2.2 million tonnes in 1999-2000 to projected 5.1 million tonnes in 2003-2004 (FAO, 2005). Because the Moroccan grain production is rain fed, output is extremely variable from year to year and periodically subject to drought conditions. Moroccan crop yields fell by more than ten percent in six of the ten years during 1991-2000 (FAO, 2000).

Morocco annually imported an average of 3 million tonnes of wheat during 1999-2000 and 2002-2003, which supplied about half of the Moroccan domestic wheat consumption during that period. Moroccan imports of coarse grains (including corn) annually averaged 1.4 million tonnes in 1999-2000 and 2002-2003, also supplying about half of the national consumption. To maintain the current level of per capita consumption, Moroccan imports of all grains are projected to annually grow by nearly 1 million tonnes during 2002-2012 (United States International Commission, 2004).

On the other hand, the USA is the leading grain exporter in the world, accounting for one third of the world wheat exports and two thirds of the world corn exports in 2003-2004. During that period, the USA produced about 321 million tonnes of wheat and corn. The value of the US grains production (at the farm level) was about $30 billion in 2003, with an estimated 220,000 US grain farmers growing wheat, corn, sorghum, barley and rice (United States International Commission, 2004).

The USA-Morocco FTA is likely to result in a substantial increase in Moroccan corn, durum wheat, and bread wheat imports from the USA. Increase in the US grain exports to Morocco could shift from $130 million to $230 million an-

nually, six to ten years after the FTA implementation, depending on the actual extent of the USA access to the Moroccan market. Moroccan grain imports from the USA totalled $75 million in 2003 (Foreign exchange office, 2007). Morocco's current tariffs on grains consist of a flat duty and an additional duty based on a threshold price. Duties frequently change, often daily, depending on domestic support prices.

4.2 Oilseeds

Morocco grows limited amounts of oilseeds and is a substantial importer of soybean, soybean meal and soybean oil. In Morocco, strong demand for eggs, poultry, salad and cooking oil has led to a substantial increase in consumption of oilseed meal and vegetable oil. The consumption is likely to increase over time, particularly as the price of imported grain and oilseed meal drops. Vegetable oil refineries use domestically produced and imported crude soybean oil, in addition to local olive oil, to produce ready salad and cooking oil. On the other hand, The USA has been the leading oilseed producer and exporter in the world over the last few decades. The primary USA oilseed crop is soybean grown on an estimated 220,000 farms in recent years and valued at $18 billion in 2003-2004. The US production of crude soybean oil and production of soybean meal in 2003-2004 amounted to an estimated $5.5 billion and $9.6 billion, respectively. The USA is also a major exporter of soybean oil, corn oil, sunflower-seed oil, animal fats, soybean meal, and related protein meals (United States International Commission, 2004).

Morocco is a relatively high-cost producer of oilseeds and exports virtually no oilseed products. Therefore, the USA-Morocco FTA is likely to have no impact on the US imports of oilseed products. Whereas, it is likely to result in a small to substantial increase in the US exports of oilseed products to Morocco, although the impact on total US production and exports of oilseeds is likely to be small. In 2003, the US exports to Morocco of soybeans, soybean oil and soybean meal accounted for $63 million, 87 percent of soybeans and 13 percent of soybean oil (Foreign exchange office, 2007).

4.3 Olives

The USA is a small to intermediate-sized producer of processed olives, with the domestic industry completely located in California. The Moroccan olive-growing sector is believed to be made up of many small volume growers, with most olive production intended for producing olive oil. Annual production of olives for all uses is reported to be about 470,000 tonnes, with estimated production of 30,000 tonnes to 50,000 tonnes used to produce canned olives, which are the same as the olives produced in the USA. The USA-Morocco free trade agreement is likely to result in a moderate increase in Moroccan processed olives exports to the USA. That may result in a slight impact on the US olive growers and processors.

4.4 Citrus

Morocco produces and exports citrus, mainly fresh oranges and tangerines, including clementines. It processes a small portion of its citrus, mainly into orange juice. Although Morocco is not among the largest citrus-producing countries, such as Spain, the USA or South Africa, it exports a relatively large percentage of its production, placing it in the second tier of citrus exporting countries along with Turkey, Argentina, and Mexico. More than half of Moroccan citrus exports are produced around the area of Agadir in the south of the country near the Atlantic coast. Due to its geographical position with respect to Spain, Morocco is able to produce citrus earlier than Spain, thus to some extent complementing Spanish production for the large European market. Morocco is not likely to significantly increase its production of citrus in the short term, despite the existence of ambitious plans by the government and Moroccan farmers to expand the citrus-growing area.

On the other hand, the USA is a leading world citrus producer, a leading importer and a leading exporter too. The value of the US citrus shipments (packinghouse-door equivalent) was $2.3 billion in 2003 and it produced 10.5 million tonnes of oranges, most of which were processed into orange juice, and exported 620,000 tonnes of fresh oranges. The US domestic consumption of fresh oranges in 2003 was 1.6 million tonnes, of which imports were mainly coming from Spain, South Africa and Australia. Imports accounted for less than one fifth of the US domestic orange juice consumption.

The USA-Morocco FTA is likely to result in a negligible increase in US citrus imports from Morocco. Practically all US imports of citrus fruit from Morocco consist of clementines, whose imports declined from $2.8 million in 1999 to $235,000 in 2001, before rising to $13 million in 2003. Morocco's share of the USA citrus fruit market is less than 1 percent. The USA tariff rates on fresh Moroccan citrus are generally less than 3 percent *ad valorem*. Under the FTA, the USA duties on most fresh citrus from Morocco would be immediately removed. Nevertheless, the EU market, which accounts for 54 to 65 percent each year of Moroccan exports, will continue to be the main outlet because of the preferential access and the lower transportation costs to Europe than to the USA. Strict US phytosanitary restrictions with respect to the Mediterranean fruit fly have also been a significant obstacle to Moroccan exports of clementines to the USA. The US citrus juice tariffs are currently relatively high, 30 to 40 percent *ad valorem*. Under the FTA, the US duties on many processed citrus products, such as orange juice, would be phased out over 18 years, with no decrease during the first 6 years, and with most of the decrease between the 13^{th} and the 18^{th} year. However, Morocco is not expected to significantly expand citrus juice production.

Processed vegetables, processed fish and agar-agar exports to USA have maintained certain stability in terms of value. Whereas, olive oil and citrus export has changed over the last few years. Morocco faces problems concerning the adaptation of its agricultural product export to draconian phytosanitary norms applied by the USA on imported agricultural products (USADA, 2006). As already stated

above, wheat import mainly depends on climatic conditions in Morocco, public authority allows cereal import under defined quotas only when the local production is not sufficient for local consumption. Whereas, Tobacco production in Morocco is getting much interest, so farmers are growing it and introducing new varieties. Nowadays, there is a private-public programme to improve the tobacco production and to enlarge the area destined to its production. The programme will last until 2010 and is expected to give promising results as farmers and tobacco private companies are much involved to succeed it. Consequently, tobacco sectors could benefit from the FTA (USADA, 2006).

Figure 1 – *The top ten US exports from Morocco (2003).*

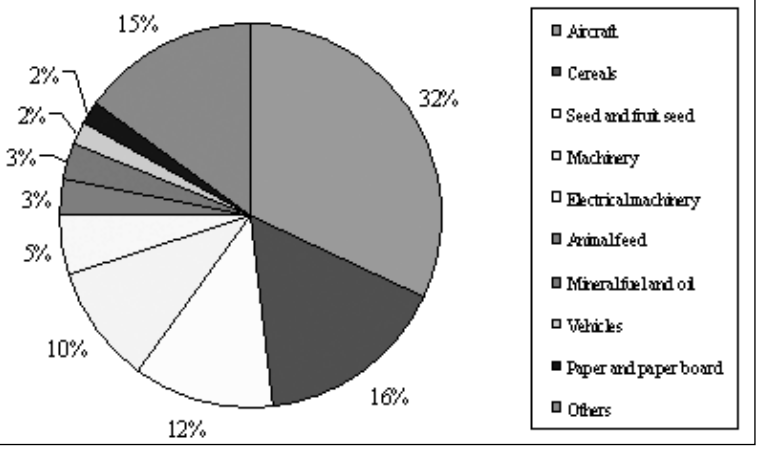
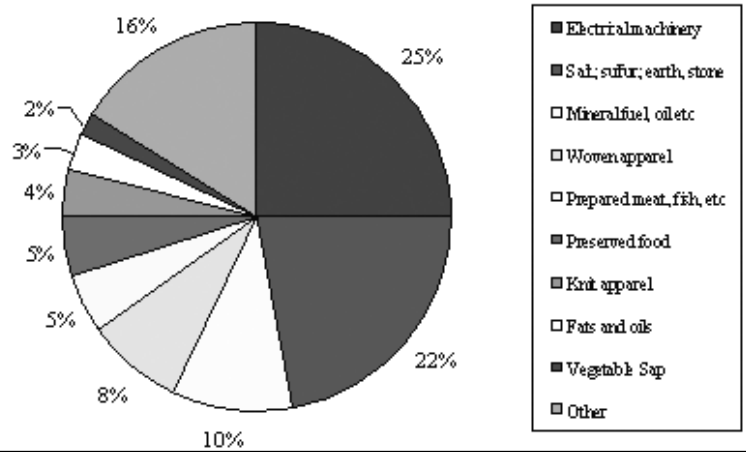


Figure 2 – *The top ten US imports from Morocco (2003).*



5. Results and Discussion

Data were collected from American official sources and Moroccan ones (see references). Then, they were subject to a descriptive and comparative analysis using statistical instruments presented in Microsoft Excel.

As figures 1 and 2 demonstrate (data of 2003), trade between Morocco and the USA is mainly composed of electrical machinery and natural minerals that share more than 47% of total Morocco's export to the USA, and agricultural and fish products which account for more than 12%. On the other hand, aircraft accounts for 32% of Morocco's import from the USA followed by agricultural products (31%).

5.1 Agricultural trade between Morocco and the USA before the FTA entry into effect

The US export to Morocco is equivalent to 4-5 percent of Moroccan imports. Morocco is approximately the 70th client for the USA. On average, 30 to 35 percent of these imports are agricultural products; mainly cereals (Foreign exchange office, 2007). On the other hand, the Morocco export corresponds to 3-4 percent of domestic exports (table 2). The USA is the seventh client of Morocco. Agriculture and food products account for 15-20 percent of total export; fresh and processed vegetables lead agricultural export. Before the FTA entry into effect, American binding import tariff rates were low in general. For Morocco, a number of basic food commodities were highly protected such as bovine meat, chicken meat, livestock and soft wheat.

In 2003, the USA-Morocco trade balance in agricultural products was a surplus of about $70 million. In that year, the USA exported over $153 million of agricultural products to Morocco and imported about $83 million of agricultural products (USTRO, 2004). Two years later (2005), trade between Morocco and the USA in agricultural products accounted for $216 million; $165 million for Morocco's import and $51 million for its export. Commercial balance between Morocco and the USA was until 2006 in favour of the second. The trade volume is continuously increasing and expected to largely augment after the FTA entry into force (USADA, 2006).

5.2 The FTA impact on the USA-Morocco trade

In January 2006, the FTA between the USA and Morocco came into force. It was expected that FTA will have influenced not only the Moroccan bilateral trade with the USA but also the Moroccan multilateral trade mainly with its main trading partners.

Bimonthly data reported in figure 3 show that there was an evident increment of Morocco's total import from the USA; in fact, it totalizes $220.8 million in the first 2007 bimestrial with respect to the $164 million occurred in the first 2005 bimestrial. In the meanwhile, Morocco's total import from the USA in 2006 was equal to $875.6 million, with respect to $525, $525.7 and $468.5 million in 2005, 2004 and 2003, respectively. That represented a total import increment in 2006 of 72.90% comparing to the average import of 2003-2005.

On the other hand, Morocco's export to the USA has not made an evident change (figure 4); in fact, total Morocco's export to the USA reached *$90.5 million* in *the first 2007 bimestrial*, after it was *$74.7 and $83.1 million in 2005 and*

Table 2 – *The USA share on Morocco's foreign trade. (Source: Foreign Exchange office, 2007)*

	2002	2003	2004	2005	2006
Import from the USA share on total Morocco's import	4.31 %	4.05 %	4.10 %	3.31 %	3.85 %
Export to the USA share on total Morocco's export	3,08 %	2.80 %	3.89 %	2.55 %	4.26 %

Figure 3 – *Total US Exports (bimonthly data) to Morocco since the 1st 2004 bimestrial.*

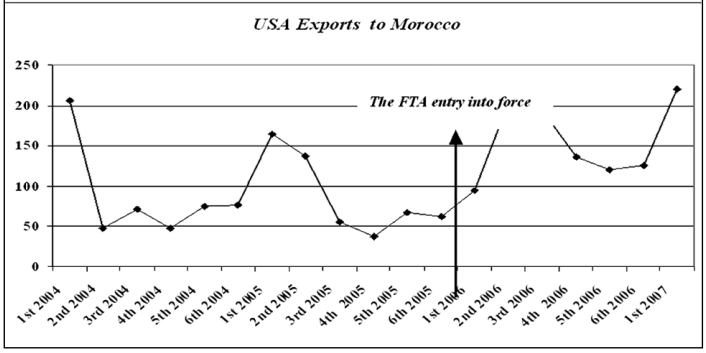


Figure 4 – *Total US Imports (bimonthly data) to Morocco since the 1st 2004 bimestrial.*

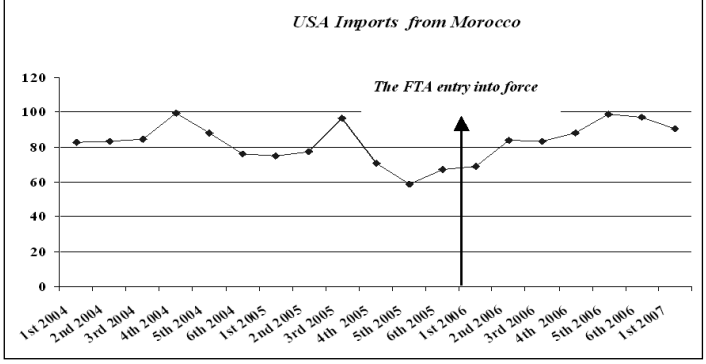


Table 3 – *Moroccan export to and import from the USA (in thousands of $ USA).*

Year	Imports	Exports	Balance
Jan-Feb 2007	220,800	90,600	130,300
2006	875,600	521,300	354,300
2005	525,000	445,800	79,200
2004	525,700	515,200	10,500
2003	468,500	385,200	83,300
2002	565,500	392,400	173,100
2001	281,900	434,600	-152,700
2000	523,300	440,800	82,500
1999	565,700	386,200	179,500
1998	561,400	343,100	218,300
1997	434,700	295,800	138,900
1996	476,200	247,100	229,100
1995	517,400	239,400	278,000
1994	408,800	191,800	217,000
1993	600,200	184,800	415,400
1992	495,800	178,100	317,700

2004, respectively. Data reported in table 3 confirm this observation; indeed, Morocco's total export to the USA *in 2006* amounted to *$ 521.3 million with respect to $ 445.8, $ 515.2* and *$ 385.2 million* in *2005*, *2004* and *2003*, respectively. That represents a total export increment in *2006* of 16.17% comparing to the average export of period 2003-2005. These numbers reflect, notwithstanding the short period of the FTA effect (only fourteen months), the modest outcome generated by the agreement on the Morocco's export to the USA in comparison with the spectacular stimulus given to its import from the USA.

5.3 The FTA impact on Morocco's import of agricultural products

Morocco's import of wheat reached *$35.696 million in 2006,* whereas it was *$2.892 million* and *$33.182 million* in *2005 and 2004*, respectively. That represents a percentage of increment attaining *63.60 %* comparing to the average wheat import value during the precedent period *2002-2005* (table 4). Hence, despite the abundance of local wheat production in 2006, Morocco's wheat import from the USA increased. That could be explained by the positive incentive generated by the FTA.

Regarding soybean import from the USA, it attained *$70,642 million in 2006* (table 4), whereas it was *$60,098 million* and *$29,362 million* in *2005 and 2004*, respectively. That matches up a percentage of increment attaining *58.09 %* comparing to the average soybean import value in *2002-2005*. On the other hand, corn import reached *$126,172 million in 2006*, whereas, it was *$77,509 million* and *$81,786 million* in *2005 and 2004*, respectively. That corresponds to a percentage of increment attaining *116.61 %* comparing to the average corn import value during *2002-2005*.

Besides, Morocco's import of dairy products and eggs from the USA reached *$ 4,204 million in 2006*, whereas it was *$0.064 million* and *$ 0.454 million* in *2005 and 2004*, respectively. That corresponds to a percentage of increment attaining *2,855.36 %* comparing to the average dairy products and eggs import value during the *2002-2005*.

Furthermore, Morocco's import of total agriculture products from the USA reached *$296,044 million in 2006*, with respect to *$153,210 million* and *$16,568 million* in *2005 and 2004*, respectively. That matches up a percentage of increment attaining *93.22 %* comparing to average total agriculture products import value during the period *2002-2005*.

In the end, the agriculture share on export remained quite unchangeable and varied from *21.86% in 2002 to 33.81 %* passing by *32.69%, 32.42% and 31.53% in 2003, 2004 and 2005*, respectively.

5.4 The FTA impact on Morocco' s agricultural products export

Morocco's export value of total agriculture products to the USA reached *$47,468 million in 2006,* subsequent to

Table 4 – *Marocco's agricultural products import from the USA (in thousands of $ USA).*

	2002	2003	2004	2005	Average 2002-05	2006	2005/2002 changes	2006/M02-05 changes	2006/2005 Changes
Wheat	10,797	40,403	33,182	2,892	2,1818.5	35,696	-73.21	63.60	1,134.30
Rice	112	89	0	0	50.25	0	-100.00	-100	
Soybeans	34,687	54,584	29,362	60,098	44,682.75	70,642	73.26	58.09	17.54
Oilseeds, food oils	16,205	13,873	13,672	78	10,957	18,188	-99.52	65.99	2,3217.95
Corn	39,099	34,594	81,786	77,509	58,247	12,617.2	98.24	116.61	62.78
Sorghum, barley, oats	35	23	0	1,794	463	1,107	5,025.71	139.09	-38.29
Animal feeds	10,394	53	25	960	2,858	16,969	-90.76	493.73	1,667.60
Meat, poultry, etc.	169	0	60	28	64.25	676	-83.43	952.14	2,314.29
Dairy products and eggs	0	51	454	64	142.25	4,204		2,855.36	6,468.75
Fruits, frozen juices	347	129	27	96	149.75	201	-72.33	34.22	109.38
Vegetables	97	29	158	229	128.25	538	136.08	319.49	134.93
Nuts	0	20	0	430	112.5	2,252		1,901.77	423.72
Bakery products	34	0	8	81	30.75	123	138.24	300	51.85
Other foods	359	447	475	617	474,5	479	71.87	0.94	-22.37
Fish and shellfish	27	138	117	141	105.75	82	422.22	-22.45	-41.84
Alcoholic beverages, excluding wine	60	67	173	89	97.25	183	48.33	88.17	105.62
Non agricultural foods, etc.	214	399	174	296	270.75	67	38.32	-75.25	-77.36
Cotton, raw	0	493	0	0	123.25	0		-100	
Tobacco	0	0	55	0	13.75	0		-100	
Hides and skins	758	291	0	4	263.25	0	-99.47	-100	-100.00
Agric. industry	7077	4,402	7,527	16,212	8,804.5	14,451	129.08	64,13	-10.86
Agric. farming	2815	2,644	2,831	3,478	2,942	2,957	23.55	0.50	-14.98
Agriculture-manufactured, other	343	459	369	472	410.75	1,057	37.61	157.33	123.94
Total Agriculture	123,629	153,188	170,455	165,568	153,210	296,044	33.92	93.22	78.81
TOTAL Import	565,430	468,499	525,659	525,037	521,156.3	875,552	828.56	122.25	66.76
Agriculture/Import	21.86	32.69	32.42	31.53	29.39	33.81			

Table 5 – *Marocco's agricultural products export from the USA (in thousands of $ USA).*

	2002	*2003*	*2004*	*2005*	*Average 2002-05*	*2006*	*2005/2002 Changes %*	*2006/M02-05 changes %*	*2006/2005 Changes*
Meat products, poultry, and edible animals	38	183	125	218	141	176	473.68	24.82	-19.27
Fruits and preparations, including frozen juices	13,412	30,518	1,627	6,197	12,938.5	1085	-53.80	-91.61	-82.49
Vegetables and preparations	30,046	27,615	36,348	2,981	24,247.5	35,208	-90.08	45.20	1,081.08
Food oils and oilseeds	1,557	827	15,238	13,259	7,720.25	1,465	751.57	-81.02	-88.95
Bakery and confectionary products	93	0	0	0	23.25	0	-100.00	-100.00	
Tea, spices, and preparations	139	1,898	2,491	3,883	2,102.75	5,833	2,693.53	177.40	50.22
Other (soft beverages, processed coffee, etc.)	69	62	233	118	120.5	148	71.01	22.82	25.42
Wine and related products	188	145	130	171	158.5	175	-9.04	10.41	2.34
Fish and shellfish	18,739	22,219	24,003	23,208	22,042.25	2,294	23.85	-89.59	-90.12
Other non-agricultural foods and food additives	410	0	27	502	234.75	1,084	22.44	361.7	115.94
TOTAL Agriculture product	64,691	83,467	80,222	50,537	69,729.25	47,468	-21.88	-31.93	-6.07
TOTAL Export	392,413	385,151	515,194	445,794	434,638	521,257	13.60	19.93	16.93
Agriculture/Exports	16.49	21.67	15.57	11.34	16.04	9.11			

$50,537 million and *$8,222 million* in *2005 and 2004*, respectively. That corresponds to a percentage of decline attaining *31.93%* comparing to average total agriculture products export value in the period *2002-2005* (table 5).

Additionally, Morocco's export value of vegetables and preparations to USA reached *$35,208 million in 2006*, whereas, it was *$29.81 million* and *$36,348 million* in *2005 and 2004*, respectively. That stands for a percentage of increment attaining *45.20%* comparing to average vegetables and preparations export value during the period *2002-2005*.

Finally, in *2006,* Morocco's total import from USA increased by *66.76 %* to its value in *2005* and by *122.25%* to the average value in the period *2002-2005*. In the meanwhile, Morocco's total export to the USA increased no more than *16.93% with respect to* the *2005* value and by *19.93%* in comparison with the average value in *2002-2005*.

6. General conclusions and recommendations

Based on the above-mentioned results, we may conclude that the FTA boosts the trade between Morocco and the USA, the FTA entry into force was in favour of the USA rather than Morocco: in fact, the trading balance between Morocco and the USA became unfavourable to Morocco. The same conclusion is valid for the agricultural products trade.

Morocco's trade share with the USA did not increase (Table 2); this concerns both export and import. That means Morocco's trade increment with the USA is mainly trade creation and not trade substitution. Whereas, for cereals, we may assume that import from the USA is trade substitution because, even though cereals local production in 2006 was good, import from the USA was increased.

Liberalisation policy in a vulnerable sector, on which more than 36% of the active population depend, has social costs that Morocco is paying and would be very expensive if the measurements announced to convoy the FTA will not be applied. To make a successful opening for the agriculture sector in Morocco, it has at first to succeed in managing social effects of prices reduction of agricultural products, and thus incomes reduction of small and marginal farmers. Transition from a traditional to a modern agriculture results in reducing farms number and productivity improvement, which could be realized by the introduction of modern techniques. This transition should be managed in its social effects; otherwise it will induce a massive rural migration.

Protected commodities are such because they have social benefits. In fact, almost half of farmers is active in cereals or livestock farming. Animal husbandry is practiced as capital reserve by people having money who decide to invest in animal husbandry. Trade situation with the USA after the FTA entry into effect gives the certitude that Morocco is loosing. Of course, we are talking about macroeconomic

parameters. However, some categories of consumers could benefit from the FTA because they can find high quality goods, wherever they come, at cheaper prices.

However, the FTA represents a concrete opportunity for Morocco if its administration sets up structural reforms at productive and legislative levels, with the encouragement of high quality production. Moreover, foreign enterprises could invest in Morocco to get profit from the new opportunities deriving from this accord; in fact, some investments in tobacco and olive oil productions have been already announced. In this sense, it should be underlined that Morocco has launched a process of public arable land liberalisation, which would effectively smooth foreign investment in agricultural production.

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Abbreviation

WTO: World Trade Organisation
EU: European Union
GATT: General Agreements on Tariffs and Trade
USA: United States of America
FTA: Free Trade Agreement
MENA: Middle East and North Africa Region
GDP: Gross Domestic Product
TRQs: tariff-rate quotas