

The Impact of the Free Trade Agreement of 2006 and Analysis of the Turkish Textile Products in the Moroccan Market

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Abstract: Nowadays globalisation is expanding the mindsets of managers, enlarging the geographical horizon, and enhancing the awareness of international opportunities. However the Free trade agreements start to be a strategy adopted by countries looking for opportunities in international markets. Morocco is one of the countries with significant number of trade agreements signed, that strengthening the position of the country as a moderate Arab state. Morocco and Turkey's Free trade agreement was officially signed on 1st January 2006, providing immediate entry to the Turkish market for Moroccan industrial goods, while customs duties is phased out on imported Turkish products over the first ten years, the agreement covers the non-agricultural products and based on common approaches.

Keywords: Trade, Free trade, Textile, agreement, market competition, Turkish product.

1. INTRODUCTION

Over the past decade, Morocco has grown slowly to open up its economy to the global market, tariffs have been lowered progressively and international exchanges have been reduced, by entering into preferential trade agreements with bilateral and regional trading partners, the country has broadened and diversified its economic and trade relations, contributing to the integration of the multilateral trading system. as a consequence the number of exports and imports expanded from less than 40 percent of the GDP in 1995 to more than 60 percent in 2014 [1]. Morocco's position and political stability provide the nation with a new source of growth for the country, establishing relations with powerful economies such as China, Europe, the Middle East, etc. The Free trade agreement between Morocco and Turkey is a significant step in the direction of Mediterranean integration. Since Ottoman Empire the two countries are have trade relations, however in almost all sectors the FTA signed in 2006 had a major impact on trade volumes, between 2014-2020 Turkish exports amount of 79.476 US dollar and 238.498 US dollar this increase demonstrate the strong economic relationship and the influence of the agreement. According to Moroccan ministry of trade the agreement has impacted the Moroccan economy causing local industries to decline, the reason behind raising customs duties on Turkish products and textiles especially. Further limits on Turkish production was levied by the Moroccan government over a period of five years, it also placed strict restrictions on Turkish store chains in Morocco and stated that if they did not comply with measures to support the Moroccan industry they would close them. Customs duties on textiles bearing Turkish seals will grow by 90 percent under the new measures [2]. Textile and clothing sector is one of the drivers of Moroccan industry, making it the fourth highest foreign income, the sector accounts for more than 40 percent of industrial jobs and generates close to 30 billion MAD in export earnings [3].

A. MOROCCAN FOREIGN RELATIONS

Morocco was ranked 53rd best place to do business in 2020 and the 3rd best place in Middle East and North Africa (MENA), Moroccan foreign trade constitutes 88 percent of its GDP in 2018 and according to the World Bank the country exported 28.60 billion US dollars while its import value was 51 billion US dollars. According to Comtrade data Morocco's main trading partners are European countries including China and the African continent in general, while

Spain is the main supplier and top customer. The trade balance of the country revealed a structural deficit of -21.7 billion dollar that continues to drain its reserves of foreign exchange, merchandise exports in 2019 decreased by 0.1 percent when imports dropped slightly by 0.4 percent to reach 51.1 billion dollar. The export value of Moroccan services identify a surplus of 6.2 billion dollar in 2018 [4]. Morocco had to figure out a way to attract investors, and provide condition for free trade with the EU and the US by adjusting the logic of economic globalisation thus it experienced like many other nations the political development of a market to draw these foreign investments [5]. By taking advantage of its geographical and cultural ties to Sub-Saharan Africa (SSA) the Middle East and Europe, Morocco aims to reshape the country into a regional business and export hub The Ministry of Industry Trade and Green and Digital Economy has announced a set of development frameworks for a range of industrial sectors in order to achieve this objective. The 2014-2020 Industrial Acceleration Plan aims to build a range of industry ecosystems including local suppliers and large foreign companies.

B. THE MOROCCAN-TURKISH FREE TRADE AGREEMENT 2006

A free trade agreement is a tariff-removal deal between countries, and other limitations on almost all goods and services between them .in other words it can be defined as a trade contract between nations that seeks to promote the exchanging of trades and remove barriers.

The agreement between Morocco and Turkey took effect in 2006, includes non-agricultural products and other agricultural products which were traded partly liberalized over preferential tariff quotas. The non-agricultural products were continuously negotiated between the two countries over a period of ten year and were subject to full exemption after the entry into the agreement. Tariffs for non-agricultural products originating in turkey and imported into Morocco have been phased out for more than ten years [6]. Morocco-Turkish bilateral trade relations are focused on shared approaches, both countries are similar in terms of Mediterranean security issues, immigration concerns and their trade strategies are also very similar in terms of the Middle East situation as shown by their contribution to the WTO. [7] The opportunities given by this FTA are numerous according to the Moroccan Ministry of Economy and Finance. In addition to the possibility to increase trade and boosting Turkish direct investment through the Pan-Euro Mediterranean in the national economy. Bilateral trade volume increased by 22 percent in 2010 to hit 1.02 billion dollar in 2017 Turkish exports to Morocco amounted to 1.983.139 million dollar and imports to 706.822 million dollar, the rise in Turkish exports to Morocco is substantial Under the Morocco-Turkey FTA, this agreement shall abolish the customs duties and charges having an equal effect on imports applicable in Turkey in respect of products originating in Morocco.

Trade volume between Turkey and Morocco million US dollar

Years	Imports	Exports
2007	198.460	721.594
2008	360.519	957.768
2009	234.729	598.540
2010	396.797	623.957
2011	419.945	920.895
2012	429.482	1.014.905
2013	572.205	1.192.899
2014	639.849	1.406.565
2015	710.635	1.337.554
2016	758.202	1.849.358
2017	706.822	1.983.139

Source: TUIK.2016

After a lively debate on the balance of FTA between Morocco and Turkey in the House of Representatives, Minister of industry ,trade and green economy Moulay Hafid Elalamy said that Turkey agreed to review the FTA exchange due to the 1.2 billion dollar deficit generated by this agreement and noted that a trade ties deficit of 18 billion MAD was registered, adding that the amount of Turkish investment in Morocco does not exceed 1 % also he insisted that the Moroccan-Turkish conflict is commercial and focuses mainly on textiles, recalling that the number of jobs lost by Moroccans in this sector

was 19000 ,24000, 35000 in 2014 ,2015,2016 respectively and 44000 in 2017 [7].while releasing the new tax guidelines Moroccan customs and indirect tax administration explained that the protectionist measure hopes to limit imports of textile products which are highly competitive with domestic products. In August 2020 an amendment signed between the two countries aims to introduce 5 years of new customs duties on certain Turkish products listed in the agreement reaching 90 percent of the usual tariff of textile with the customs tax increasing from 25 % to 30% on taxable products.

C. MOROCCAN TEXTILE SECTOR

Morocco is one the ten leading producers of textile in the EU and the second largest supplier to the Mediterranean countries, The textile sector is of strategic importance as it mainly contributes to national industry aggregates, as the OECD reported that the value added terms increased from 1.7 billion dollar in 1995 to 2.4 billion dollar in 2014 with 80 % of the value added generated as the industry has a very strong export orientation. This sector is an important source of export earnings, while the Moroccan industrial fabric is fragmented and implicate a large informal sector. The state has developed a holistic vision that combines both the export and domestic markets, an objective pursued under the Industrial Acceleration Plan 2014-2020 strategy with a view to attracting greater income from its potential and ensuring sustainable growth [8]. According to International Centre this sector employs 185.000 employee, which making it a major employer for the Morocco with a value of 3.9 billion dollar, exports of textiles and clothing accounted for 15 percent of Moroccan industrial GDP in 2018 , Exports grew to 1.13 billion Euro in the same year and the country accounts for 0.8 percent of world Textile and clothing trade with Spain as largest export market where 61 percent of all clothing exports went and France with 20 percent United Kingdom ,Germany and Italy are additional markets [9].Morocco is a good example of a developing market and Textile sector is inspired by free trade agreement and a vast infrastructure network, making Morocco's textile industry a business opportunity ,Indeed it is regarded by many textile companies as a genuine motor of production. [10].Morocco is taking advantage of its geographical location and jostling to become a sourcing hub for the fast fashion industry in Europe, Morocco along with Turkey and Portugal are a major sourcing market for the Spanish retailer Inditex ,known with its ability to quickly transport trend-led product to stores , including famous brands such as Pull & Bear, Zara, Massimo Dutti and Bershka, also fast delivery times are highly important factors in order to stay competitive , according to TEX DATA international magazine being able to respond quickly to trends is a must Moroccan textile industry has changed a lot with the fast-fashion model , versatility in the production and processing of samples makes small series in a short time and give this ecosystem in Morocco a major competitive advantage. another plus is the proximity to Europe, which increases production speed, the duty exemption due to the EU agreement also promotes the movement of products and the country is also one of the few countries to have a coherent strategy for the growth of the textile sector, including the identification of eco-systems and their locomotives in each segment that attract and support small businesses quick fashion, Jeans, knit, Technical textiles, home textiles, and industry retailers. Global Textiles and Clothing Program (GTEX) aim to boost the export competitiveness of the Moroccan textile and clothing industry, creating added value through the value chain [11].

D. Turkish Textile in Morocco

Moroccan clothing companies know that when textile and clothing quotas were fully abolished in 2005 under the textiles and clothing agreement, competition issues about performance and qualitative rules will regulate global production, this would have the effect of concentrating production on a smaller number of the most competitive manufactures in the world such as China ,India and Pakistan. The consequence for Morocco is that their clothing sector would have to distinguish themselves in some way if they want to grow in the international market by cost, skill, product, location advantages and trade preference advantage. Otherwise Morocco's textile industry is facing a fierce competition from Turkish producers, which has caused many models and discontinued several factories pushing Moroccan professionals to adopt a new strategy to increase competitiveness, the free trade agreement concluded with Turkey has dumped the Moroccan economy [12] by opening stores in major cities of the region including Casablanca ,Rabat ,Marrakech, Tangier ,Fez and Agadir several Turkish brands such as LC Waikiki ,Defacto and Koton have intended to expand the national market. This decision follows a study conducted by AMITH to recognize those Turkish operators who have sold their product strategically at a loss in order to flood the national market. In fact, imports of Turkish textile products recorded a significant increase of 175 percent between 2013 and 2017.The saturation of the domestic textile market with Turkish goods has resulted in the loss of 2000 jobs per year over the past five years [13]. As a premium cotton producer Turkey has an integrated production process, diversified into all sub-sectors of the textile industry, producing and exporting all

forms of yarn, fabrics, clothes, home textiles and other ready-to-use items throughout the world. Turkey is among the most competitive countries in the world with China, India and South Korea taking into account raw material, labour and marketing factors. Because of the strong links within the region's economic dynamics, developments in the textile and clothing industries have an unavoidable effect on the entire Turkish economy. The sustainability of the influence of such industries is of great importance under these global competitive conditions when positive feedback from competitive countries are considered [14]. The main reason behind Morocco's recent threat to exit from the FTA with Turkey is that Turkish product has reached significantly the Moroccan markets, while Turkish barriers treat Moroccan product rigidly, that's why a Morocco-Turkey technical commission will be established to investigate the possibility of re-balancing trade between the two countries, the commission will study the functioning of the FTA and seek to identify the Moroccan export sectors which are likely to be of interest to the Turkish local market, as well as the potential for Turkish investment in the industrial sector of Morocco.

2. CONCLUSION

The Morocco- Turkey Free trade agreement has provide a good economic relations, as shown by the increased trade last years, the Turkish investment in Morocco is estimated at 24 million US dollar, and several infrastructure contracts have been signed, as Turkey gains from exporting products to Morocco without duties under the free exchange agreement between the two countries .However due to weak competition within the national economy and the reliance of Moroccan companies on the protectionist umbrella of ISO , including customs duty, import licenses and a host of security measure the country has approved an amendment of the Morocco-Turkey (FTA),by raising customs duties by up to 90 percent on 1.200 Turkish products for a five-year term. This decision aim to reduce 1.2 billion US dollar trade deficit with Turkey and correct trade imbalances and prevent possible fraud by paying attention to the local product of origin as well as the gradual reduction of customs duties would give Moroccan industries time to adapt to the international competition and produce high-quality products to compete the leaders of the sector. The strategy of openness and trade liberalization needs a sustainable and coherent industrial policy in order to face the several challenges associated with free trade, this policy should encourage the production and diversification of offering exports, as well as concentrating on increases in productivity by encouraging the role of research and development, this approach may also be focused on qualitative improvement and vertical integration strategies that are sufficiently supported by the financial and human capital to achieve competitive benefits in the technology-intensive and skilled labor sectors.to ensure that national production capacity is more competitive with foreign demand this policy could lead to the emergence of important comparative advantages that could lead to sustained growth of the national economy.

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