

# Transformative Impacts of Chinese FDI: Catalyzing Technological Advancements and Economic Growth in Morocco

Younes Touati, Feng Jingjie, Dr. Mohamed Salah Adawi Ahmed

PhD candidate, International trade, Zhongnan University of Economics and Law, China  
China, Master candidate school of technology economy and management, Zhongnan University of Economics and Law, China

Zhongnan University of Economics and Law, China

## Abstract

Foreign Direct Investment (FDI) plays a vital role in shaping the global economic landscape, driving growth, spurring technological innovation, and enhancing international competitiveness. This paper embarks on a deep dive into the multifaceted world of FDI, unraveling its core concepts, theoretical underpinnings, influencing factors, and profound economic impacts. Focusing on Morocco, the study traces the evolution and current status of FDI, showcasing the nation's strategic initiatives since the reform and opening up era aimed at magnetizing foreign investments. Through illuminating case studies of Chinese FDI in Morocco, the paper reveals the transformative effects on economic development, job creation, and technological transfer. The findings highlight the crucial need for optimizing the investment climate, boosting innovation capabilities, and fostering regional development to attract premium foreign investments and ensure long-term economic vitality.

**Keywords:** Foreign direct investment; Technological Innovation; Morocco; Chinese Investment

## 1. Introduction

Foreign Direct Investment (FDI) is a crucial component of the modern global economy, encompassing the movement of capital, technology, and management expertise across borders. This investment mechanism involves businesses or individuals from one country placing their resources into enterprises or projects in another country to gain long-term benefits and exert a degree of control over the invested assets. FDI is distinct from other forms of investment, such as portfolio investment, due to its emphasis on establishing lasting interests and significant influence over the management of the enterprise.<sup>1</sup>

FDI is a multifaceted concept that extends beyond mere financial investment. It often includes the transfer of technology, managerial skills, and even organizational practices, which can significantly influence the host country's economic landscape. The theoretical underpinnings of FDI can be traced back to several economic theories, including the eclectic paradigm (OLI framework) proposed by John Dunning. In this framework, ownership, location, and internalization are considered to be the primary drivers of FDI. Ownership advantages refer to the competitive strengths of the investing firms, such as proprietary technology or brand reputation. Location advantages are the benefits derived from operating in a particular geographic area, such as access to natural resources or favorable regulatory environments.<sup>2</sup>

The level of FDI is influenced by many factors, including the size and growth potential of the host economy as well as the overall stability of the host country's economy. Political stability, legal frameworks, and the ease of doing business are also critical considerations. Additionally, factors like labor costs, availability of skilled workforce, infrastructure quality, and cultural compatibility can significantly impact FDI flows.

<sup>1</sup> Bouoiyour Jamal, "The determining factors of foreign direct investment in Morocco", Université de Pau et des Pays de l'Adour, avenue du Doyen Poplawski 64000 Pau. France.(2007).

<sup>2</sup> Mona Haddad, Ann Harrison, "Are there positive spillovers from direct foreign investment?: Evidence from panel data for Morocco", Journal of Development Economics, Volume 42, Issue 1, (1993), P.p 51-74.

Governments often implement policies to attract FDI, including tax incentives, subsidies, and the establishment of special economic zones.<sup>3</sup>

The economic effects of FDI are profound and multifaceted. For the host country, FDI can stimulate economic growth by providing much-needed capital, generating employment, and fostering the development of new industries. It can also enhance productivity and competitiveness through the transfer of technology and managerial expertise. FDI can lead to improved infrastructure, greater integration into the global economy, and increased exports. However, there are potential downsides, including the risk of crowding out local businesses, cultural homogenization, and the potential for exploitation of natural resources.

For the investing country, FDI offers opportunities for market expansion, diversification of revenue streams, and access to new technologies and resources. It also enables firms to circumvent trade barriers and take advantage of lower production costs in the host country.

China's experience with FDI provides a compelling case study. Since opening up its economy in the late 1970s, China has become one of the largest recipients of FDI globally. The Chinese government has implemented various measures to attract FDI, including the establishment of special economic zones, liberalization of trade policies, and improvement of the investment climate. FDI has played a crucial role in China's rapid economic development, contributing to its transformation into a global manufacturing hub and a major player in international trade. The influx of foreign capital and technology has spurred industrial modernization, innovation, and economic diversification.<sup>4</sup>

As globalization accelerates, the scale and impact of FDI are expected to continue expanding. Emerging markets are likely to become increasingly attractive destinations for FDI, driven by their growth potential and rising consumer bases. Technological advancements and the digital economy will also shape the future landscape of FDI, with sectors such as information technology, renewable energy, and biotechnology garnering significant investment interest. Additionally, the ongoing geopolitical shifts and trade tensions may influence FDI patterns, prompting firms to reassess their investment strategies and supply chain configurations.<sup>5</sup>

### ***Concept and Theoretical foundation of FDI in Morocco***

Foreign Direct Investment (FDI) in Morocco is a crucial component of the country's economic development strategy, leveraging its geographic, political, and economic characteristics to attract international investors. The concept and theoretical foundations of FDI involve a mix of economic theories, strategic geographical positioning, and proactive government policies designed to foster an environment conducive to investment from abroad.<sup>6</sup>

The concept of FDI refers to an investment made by a firm or individual in one country into business interests located in another country. Typically, FDI takes the form of establishing business operations or acquiring business assets in a foreign country, such as ownership or controlling interest in a foreign company. The primary distinction between FDI and portfolio investment is that FDI is aimed at gaining a lasting interest in a business operating in a foreign nation, often ensuring management or control influence over corporate operations.

### **The theoretical underpinnings of FDI in Morocco**

Eclectic Paradigm (OLI Theory), which Proposed by John Dunning, this theory suggests that FDI is influenced by three types of advantages—Ownership (O), Location (L), and Internalization (I). Ownership advantages refer to the company's unique assets and capabilities that provide a competitive edge internationally. Location advantages are the features of a host country, such as Morocco, that attract investment (e.g., strategic location, resource availability, labor costs). Internalization advantages are the

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<sup>3</sup> Haddad, Mona. How trade liberalization affected productivity in Morocco. Vol. 1096. World Bank Publications, (1993).

<sup>4</sup> World Bank (2002)

<sup>5</sup> Ahn, JaeBin, et al. "Reassessing the productivity gains from trade liberalization." *Review of International Economics* 27.1 (2019). pp.130-154.

<sup>6</sup> Harrison, Ann, and Mona Haddad. "Are there dynamic externalities from direct foreign investment? Evidence for Morocco." (1993). pp.1-38.

benefits gained from managing resource deployment and business activities within the company rather than through partnerships or licensing.<sup>7</sup>

The concepts of Market Imperfections Theory and Product Life Cycle Theory offer valuable insights into the strategies companies adopt when entering and operating within foreign markets like Morocco. These theories help explain the nuances of international business dynamics and strategic decision-making.<sup>8</sup>

Market Imperfections Theory posits that structural flaws within markets—such as tariffs, trade barriers, and lack of information—can significantly influence a company's decision to invest directly in a foreign market rather than exporting products from their home country. In the context of Morocco, a country with its own set of regulatory and economic challenges, this theory becomes particularly relevant. For example, Morocco has implemented various trade barriers and protective tariffs to shield local industries from global competition. According to the Market Imperfections Theory, these barriers make exporting to Morocco less appealing due to higher costs and logistical complications. As a result, foreign firms might find it economically advantageous to establish local production facilities within Morocco. This direct investment not only circumvents trade barriers but also may lead to cost savings in logistics, such as lower transportation costs and quicker response times to market demands. Additionally, by investing locally, companies can gain better insights into Moroccan consumer behavior and potentially forge stronger relationships with local stakeholders, from suppliers to governmental bodies.

Product Life Cycle Theory, proposed by economist Raymond Vernon, provides another layer of understanding by suggesting that companies internationalize their operations based on the life cycle stages of their products. Initially, new products are typically developed and manufactured in the home country. However, as products mature and markets become saturated, companies look to expand overseas to extend the product's life cycle. In the case of Morocco, foreign firms might find it beneficial to shift production to local factories as their products reach maturity. This relocation helps in reducing production and distribution costs, thus allowing the companies to price their mature products more competitively in the Moroccan market.<sup>9</sup>

Moreover, local production enables companies to tailor their products more closely to the specific tastes and requirements of Moroccan consumers, which can enhance market penetration and prolong the product's life cycle. By investing in Morocco during the maturity stage of their products, firms can exploit new customer segments and respond more adeptly to local market dynamics.

These theories underscore a strategic framework through which multinational corporations navigate complex international landscapes. Morocco, with its unique economic and regulatory environment, offers a case study on how market imperfections and product life cycle stages can drive foreign direct investment decisions, shaping the broader patterns of global trade and economic integration.

### ***factors influencing FDI in Morocco***

#### **Economic Dynamism and Investment Opportunities in Morocco**

Morocco's economy presents a robust platform for foreign direct investment (FDI), underpinned by consistent growth across various key sectors. Agriculture remains a staple of the Moroccan economy, leveraging the country's diverse climates to produce a range of goods from olives to citrus fruits, which are significant not only for domestic consumption but also for export. The tourism sector has also seen a vibrant expansion, drawing visitors to Morocco's rich cultural heritage sites, bustling markets, and scenic landscapes. Additionally, the manufacturing sector, particularly in automotive and aerospace, has grown substantially,

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<sup>7</sup> Hymer, Kindleberger, Ohlin Heckscher, and Vernon Casson. "ECONOMIC THEORIES AND OLI PARADIGM." School of Doctoral Studies European Union (2011): 11.

<sup>8</sup> Zhang, Xiaole, et al. "Infection risk assessment of COVID-19 through aerosol transmission: a case study of South China seafood market." *Environmental science & technology* 55.7 (2020).

<sup>9</sup> Cao, Hui, and Paul Folan. "Product life cycle: the evolution of a paradigm and literature review from 1950–2009." *Production Planning & Control* 23.8 (2012): 641-662.

supported by significant investments from major global players. These sectors collectively enhance Morocco's economic profile, making it an attractive destination for FDI.<sup>10</sup>

The strategic geographical positioning of Morocco serves as a pivotal gateway between Africa and Europe. This unique placement offers dual advantages: it provides businesses with easy access to the vast African market while also serving as a conduit to the European market, allowing for efficient import and export activities. This geographical advantage is further complemented by well-developed infrastructure, including ports like Tangier Med, which is one of the largest in the Mediterranean and crucial for maritime trade. Such logistical capabilities not only support Morocco's own economic activities but also attract multinational corporations looking to optimize their operations across two continents.<sup>11</sup>

The Moroccan government has implemented several fiscal incentives aimed at encouraging both domestic and foreign investments. Initiatives such as reduced corporate tax rates and VAT exemptions are targeted particularly at high-value sectors like renewable energy, automotive, and information technology. Moreover, Morocco has streamlined administrative procedures and strengthened legal frameworks to provide a more predictable and transparent business environment. These reforms are part of a broader strategy to attract foreign investment by reducing operational costs and risks, thereby making Morocco a more competitive market in the global arena.

Morocco's active participation in multiple free trade agreements (FTAs) underscores its open economic stance. The country has established FTAs with significant economic blocs and countries, including the European Union, the United States, and various Arab and African nations. These agreements facilitate the reduction of trade barriers, such as tariffs and quota restrictions, thereby enhancing Morocco's attractiveness as an investment hub. Through these FTAs, Morocco not only secures preferential access to key markets but also positions itself as a strategic partner in international trade, benefiting from increased economic cooperation and investment inflows. This network of agreements, coupled with its strategic initiatives and economic diversity, solidifies Morocco's role as a major player in attracting and sustaining foreign direct investment.<sup>12</sup>

### **The Impact of Technological Advancements on Morocco's Economic Prospects**

Technological advancements have significantly influenced Morocco's economic landscape, offering both new opportunities and challenges. As a nation traditionally reliant on agriculture, tourism, and mining, the introduction of digital technologies and renewable energy innovations has begun to reshape these sectors. For example, precision agriculture technologies have improved crop yields and resource management, allowing for more efficient farming practices that can cope with the arid climate. Similarly, the expansion of the renewable energy sector, highlighted by projects like the Noor Ouarzazate Solar Complex, represents Morocco's commitment to sustainable development and positions it as a leader in clean energy within Africa. In addition to boosting productivity, these technological shifts attract foreign investment and enhance the country's competitive edge on the global stage.<sup>13</sup>

The digital transformation in Morocco has propelled the growth of the service sector, particularly in information technology and telecommunications. The government's push-through initiatives such as the "Maroc Digital 2020"<sup>14</sup> strategy aim to create a digital ecosystem that fosters innovation and entrepreneurship. This strategy supports the creation of technology hubs and incubators, which encourage

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<sup>10</sup> Ali, Walid, and Ali Mna. "The effect of FDI on domestic investment and economic growth case of three Maghreb countries: Tunisia, Algeria and Morocco." *International Journal of Law and Management* 61.1 (2019). Pp.91-105.

<sup>11</sup> Es-Safi, Yassine. *The impact of foreign direct investment on the economic development in Morocco*. Diss. Kauno technologijos universitetas, 2017.

<sup>12</sup> Zarrouk, Jamel, and Franco Zallio. "Integrating free trade agreements." third MDF conference. (2000).

<sup>13</sup> El Hafdaoui, Hamza, Ahmed Khallaayoun, and Kamar Ouazzani. "Long-term low carbon strategy of Morocco: A review of future scenarios and energy measures." *Results in Engineering* (2023).

<sup>14</sup> maroc, cas de l'opérateur orange, abdellatif chakor, and belharar ouafae. "the contribution of digital to the development of customer relationship: the orange morocco operator." *revue marocaine de recherche en management et marketing* 20.1 (2020): 48.

the growth of startups and small businesses, vital for job creation and economic diversification. Additionally, improvements in digital infrastructure, such as expanded broadband access, have facilitated a more connected society and economy, enabling remote education, e-commerce, and telemedicine, thus enhancing the quality of life and access to services for Moroccan citizens.

The rapid pace of technological change also presents challenges, there is a pressing need for policy frameworks able to manage the socioeconomic impacts, such as the potential displacement of traditional jobs and the widening digital divide between urban and rural areas. To harness the full potential of these advancements, Morocco must invest in upskilling and reskilling its workforce, ensuring that education and training programs are aligned with the emerging needs of a technology-driven economy. Furthermore, addressing regulatory and infrastructural challenges will be critical to fostering a conducive environment for innovation and safeguarding against cyber threats. As Morocco navigates these dynamics, the interplay between technology and policy will be crucial in shaping its economic future.<sup>15</sup>

### **The Role of the Legal and Political Environment in Morocco's Investment Ecosystem**

Morocco's investment landscape is significantly shaped by its political and legal environment, which has seen substantial reforms in recent years to promote an investment-friendly climate. Politically, Morocco is a constitutional monarchy with King Mohammed VI playing a pivotal role in governance and economic development initiatives. The political stability of Morocco, marked by the peaceful transitions of power and the monarch's proactive approach to policy reforms, stands out in the region. These political dynamics are crucial as they provide a predictable environment for investors, reducing the risks associated with political upheaval. The government has also embarked on numerous initiatives, such as the "Plan Maroc Vert" for agriculture and the "Plan Azur" for tourism, which underscore a commitment to sector-specific growth and development, thereby enhancing investor confidence.<sup>16</sup>

Morocco has undertaken significant steps to align its regulations with international standards, which is a key factor in its attractiveness as an investment destination. The country has reformed its commercial laws to simplify the processes for starting and doing business, including reducing the time and steps required to register a business and enhancing protections for intellectual property rights. These legal reforms are complemented by Morocco's strategic trade agreements with the European Union and the United States, including a Free Trade Agreement by that eliminates tariffs on 95% of goods. For long-term investments, such legal and trade frameworks facilitate smoother operations and provide level playing fields for foreign businesses.<sup>17</sup>

The legal framework in Morocco is bolstered by its efforts to combat corruption and enhance judicial transparency. The creation of institutions like the Central Authority for the Prevention of Corruption reflects a strong governmental resolve to address governance issues that typically deter foreign investment. These measures are crucial in creating an environment where businesses can operate without the constant threat of bureaucratic red tape and corruption. Furthermore, Morocco's active pursuit of renewable energy projects and its commitment to sustainable development are increasingly seen as positive indicators by investors focused on long-term sustainability and ethical investment opportunities. As a result of these factors, Morocco has become an increasingly attractive investment destination for investors looking for stability, growth, and political stability.<sup>18</sup>

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<sup>15</sup> Barkema, Harry G., Joel AC Baum, and Elizabeth A. Mannix. "Management challenges in a new time." *Academy of Management journal* 45.5 (2002).

<sup>16</sup> Catusse, Myriam. "Morocco's Political Economy." *The Arab State and Neo-liberal Globalization. The Restructuring of State Power in the Middle East* (2009) Pp. 185-216.

<sup>17</sup> Cantoni, Roberto, and Karen Rignall. "Kingdom of the Sun: a critical, multiscale analysis of Morocco's solar energy strategy." *Energy Research & Social Science* 51 (2019) Pp.20-31.

<sup>18</sup> Igbida, Issam, and Tarbalouti Essaid. "Corruption In Morocco-A Sectorial Analysis." *Invest Journal of Sharia & Economic Law* 4.1 (2024) Pp. 21-45.

### ***The impact of foreign direct investment (FDI) on the Moroccan economy***

Over the past few decades, Morocco has strategically positioned itself as an attractive destination for foreign investors through the implementation of favorable policies, infrastructural improvements, and economic reforms aimed at enhancing the business environment. The inflow of FDI has significantly contributed to various sectors, including manufacturing, real estate, and renewable energy, thereby creating employment opportunities, fostering technological transfer, and boosting overall economic productivity. However, the impacts of FDI are multifaceted, encompassing both benefits and challenges, which require careful analysis to ensure sustainable and inclusive growth for the Moroccan economy.

#### **Transfer of technology and innovation in Morocco**

FDI has significantly influenced the technological landscape of Morocco by introducing advanced technologies and fostering an environment conducive to innovation. Foreign companies enter the Moroccan market using cutting-edge technologies and best practices that are often more advanced than what is currently available domestically. This technology transfer typically occurs through various means, such as joint ventures, partnerships, and direct investments in local research and development (R&D) initiatives. These collaborations enable Moroccan firms to access new technologies and methodologies, facilitating knowledge transfer and skill development among local employees. As these employees become adept at using these new technologies, they can further disseminate their expertise within the broader industry, thereby elevating the technological capabilities of the entire sector.

The presence of foreign firms creates a competitive environment that pushes local companies to innovate and improve their processes, products, and services. The competitive pressure exerted by these foreign entities catalyzes domestic firms to adopt new technologies and enhance their operational efficiencies. This drive for innovation is not limited to mere imitation but often leads to the creation of new adapted technologies and processes tailored to the specific needs of the Moroccan market. Over time, the cumulative effect of these innovations can transform local industries, making them more globally competitive. As local firms become more technologically sophisticated, they can better compete with their global counterparts, further integrating Morocco into the global economy.

The long-term impact of FDI on Morocco's technological advancement and innovation landscape is profound. By continuously exposing local firms to advanced technologies and innovative practices, FDI contributes to developing a flexible and resilient industrial base.<sup>19</sup> As a result of this technological advancement, Moroccan industries will become more efficient and productive, and Morocco will become a more attractive investment destination. By increasing FDI, Morocco can achieve a virtuous cycle of growth that attracts even more investment through increased adoption and innovation. Ultimately, this process helps Morocco to build a robust and competitive economy capable of sustaining high levels of growth and development in the global market.

#### **Development of the Moroccan Regional Economy**

FDI has played a significant role in fostering regional development in Morocco. One of the primary ways FDI contributes to balanced regional development is by directing investment into less developed and often overlooked areas of the country. Foreign investors, attracted by lower operational costs, frequently establish their ventures in regions outside the major urban centers like Casablanca and Rabat. This strategic dispersal of investment helps mitigate regional disparities by promoting economic activities in areas that traditionally receive less attention and resources. In previously stagnant regions, the gap between rural and urban areas narrows as a result.<sup>20</sup>

Infrastructure development is another critical aspect of how FDI benefits regional development in Morocco. Investments from foreign entities often come with substantial funds directed toward improving local infrastructure, including roads, transportation networks, and utilities. These improvements enhance

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<sup>19</sup> Ali, Walid, and Ali Mna. "The effect of FDI on domestic investment and economic growth case of three Maghreb countries: Tunisia, Algeria and Morocco." *International Journal of Law and Management* 61.1 (2019). Pp. 91-105.

<sup>20</sup> Soussane, Jihad Ait, Amine Chentouf, and Zahra Mansouri. "Does Moroccan diaspora play a role in the location of Moroccan FDI? An empirical investigation on outward FDI into 46 host countries." *Transnational Corporations Review* 16.2 (2024).

connectivity and market access for remote and underdeveloped regions, making them more attractive for further investments. Better infrastructure facilitates smoother logistics and reduces the cost and time required to transport goods and services. This, in turn, creates a more conducive environment for businesses to thrive, attracting additional domestic and international investors to these regions. Enhanced infrastructure also improves the quality of life for local populations, contributing to overall social and economic upliftment.

The influx of FDI leads to the establishment of industries and businesses in underdeveloped areas, which creates employment opportunities and stimulates local economies. In addition to providing income for residents, creating jobs also promotes skill development and knowledge transfer, as foreign businesses train and hire local workers. This employment generation helps reduce poverty levels and increases living standards. As local economies grow and diversify, there is a multiplier effect where increased economic activities spur further investment and consumption. By promoting regional development through these mechanisms, FDI ensures that the benefits of economic growth are more evenly distributed across Morocco, contributing to greater social stability and cohesion. This balanced growth helps reduce regional tensions and maintain social harmony, consequently fostering a more integrated and prosperous nation.

### **Moroccan Economic Growth**

Foreign Direct Investment (FDI) has emerged as a pivotal catalyst for economic growth in Morocco, significantly impacting various facets of the nation's economy. Capital inflows have boosted the Gross Domestic Product (GDP) by energizing key sectors such as manufacturing, tourism, and services. One of the primary ways FDI contributes to economic growth is through the infusion of capital commonly directed towards infrastructure development. This capital investment improves transportation networks, energy supplies, and telecommunications systems, creating a more efficient and conducive environment for business operations.<sup>21</sup> The improved infrastructure supports existing businesses and also makes the country more attractive to further foreign investment, creating a positive feedback loop of growth and development.<sup>22</sup>

One of the most tangible benefits of FDI in Morocco is job creation. Foreign enterprises setting up operations in the country often require a local workforce, thereby generating employment opportunities. This influx of jobs spans various skill levels, from low-skilled positions in manufacturing plants to high-skilled jobs in technology and management. Moreover, the presence of foreign companies often leads to the establishment of supply chains and ancillary industries, further amplifying job creation. The resultant decrease in unemployment not only improves the standard of living for many Moroccans but also stimulates domestic consumption, creating a virtuous cycle of economic activity and growth. Additionally, the training and development provided by these foreign companies enhance the skill set of the local workforce, making them more competitive in the global job market.<sup>23</sup>

The FDI on Morocco's economy has been to foster a more robust and dynamic economic environment. By decreasing the dependency on agriculture and promoting the growth of manufacturing, tourism, and services, FDI has helped to create a more balanced and resilient economic structure. As the economy diversifies, the Moroccan population has a wider range of employment opportunities, which leads to more stable and sustainable growth. This, in turn, leads to improved living standards and greater economic stability. Additionally, the presence of foreign investors can lead to stronger economic ties with other countries, enhancing Morocco's integration into the global economy.

### ***An overview of the evolution and current situation of foreign direct investment in Morocco***

FDI in Morocco has evolved significantly over the past few decades, transforming the country's economic landscape. Historically, Morocco's strategic location as a gateway between Europe and Africa has made it an attractive destination for foreign investors. In the late 20th century, the Moroccan government implemented

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<sup>21</sup> Arbia, Anass, et al. "FDI, Information and Communication Technology, and Economic Growth: Empirical Evidence from Morocco." *Advances in Management and Applied Economics* 13.6 (2023). Pp.189-214.

<sup>22</sup> Ajayi, S. Ibi. "FDI and economic development in Africa." A Paper presented at the ADB/AERC International [online] (2006).

<sup>23</sup> Ali, Walid, and Ali Mna. "The effect of FDI on domestic investment and economic growth case of three Maghreb countries: Tunisia, Algeria and Morocco." *International Journal of Law and Management* 61.1 (2019): 91-105.

several liberalization policies to create a more investor-friendly environment. In addition, state-owned companies were privatized, free trade zones were established, and investment promotion agencies emerged, such as the Moroccan Investment Development Agency (MIDA).<sup>24</sup> Morocco's membership in various international trade agreements, including the Association Agreement with the European Union and the Agadir Agreement, also contributed to its appeal to foreign investors. These efforts were complemented by significant improvements in infrastructure, such as the development of the Tangier-Med port, which became one of the largest ports in Africa and a major hub for international trade.

in recent years due to Morocco's multifaceted economy and targeted sectoral policies. The country has attracted substantial investments in key sectors such as automotive, aerospace, renewable energy, The automotive industry, in particular, has seen remarkable growth, with major international companies like Renault and PSA Peugeot-Citroën establishing large manufacturing plants, turning Morocco into a leading car producer in Africa. Renewable energy has also been a significant focus, with the Moroccan government's ambitious goal of generating 52% of its electricity from renewable sources by 2030, attracting considerable foreign investment in solar and wind projects. Furthermore, the political stability and proactive economic policies of the Moroccan government have created a conducive environment for sustained FDI growth. As a result, Morocco has positioned itself as a competitive and attractive destination for foreign investment, leveraging its strategic advantages and ongoing reforms to maintain its upward trajectory in the global FDI landscape.<sup>25</sup>

#### **The current FDI landscape in Morocco in terms of policy reforms and liberalization**

Morocco has been proactive in reforming its policies and liberalizing its economy to attract FDI. Over the past few decades, the Moroccan government has implemented numerous economic and structural reforms aimed at creating a more favorable business environment. These reforms include modernizing the legal and regulatory framework, improving infrastructure, and enhancing the transparency and efficiency of administrative procedures. Key legislation such as the Investment Charter, which offers incentives and guarantees to investors, has played a significant role in making Morocco an attractive destination for FDI. Additionally, the establishment of free trade zones and special economic zones has further incentivized foreign companies to set up operations in the country.<sup>26</sup>

The liberalization of the Moroccan economy has been marked by significant privatization efforts, reducing the state's involvement in various sectors and encouraging private sector participation. This move towards a more market-oriented economy has been instrumental in attracting foreign investors. Sectors such as telecommunications, energy, and finance have seen substantial foreign investment due to these liberalization policies. The government has also focused on enhancing the business climate by simplifying the process of starting a business, protecting minority investors, and improving contract enforcement. These efforts have been reflected in Morocco's improved rankings in global business indices, signaling a more competitive and investor-friendly environment.<sup>27</sup>

Morocco's strategic geographical location, bridging Europe and Africa, has also been a significant factor in attracting FDI. The country serves as a gateway to African markets while maintaining strong trade ties with Europe, particularly through agreements such as the Association Agreement with the European Union. Morocco's membership in various regional and international organizations, including the African Union and the World Trade Organization, further enhances its attractiveness as an investment hub. The government has also prioritized sectors such as renewable energy, automotive, and aerospace, which have seen substantial FDI inflows due to targeted policies and strategic partnerships.

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<sup>24</sup> Bouoiyour, Jamal. "The determining factors of foreign direct investment in Morocco." *Savings and Development* (2007): 91-106.

<sup>25</sup> Boulakhbar, M., et al. "Towards a large-scale integration of renewable energies in Morocco." *Journal of Energy Storage* 32 (2020).

<sup>26</sup> Chentouf, M. A., and M. A. Allouch. "Renewable and alternative energy deployment in Morocco and recent developments in the national electricity sector." *Open Access Journal Photoenic* 2.1 (2018).

<sup>27</sup> Bouabid, Ali, Andrei Sleptchenko, and Said Mouline. "Pathways to 100 percent renewable energy supply: Morocco options until 2030." 2019 7th International Renewable and Sustainable Energy Conference (IRSEC). IEEE, (2019).



Despite these positive developments, Morocco continues to face challenges in fully realizing its FDI potential. Issues such as regulatory complexities, and a need for further improvements in the judicial system can hinder investment flows. However, the Moroccan government remains committed to ongoing reforms and has outlined ambitious plans in its Vision 2030 strategy, which aims to further enhance the business environment, diversify the economy, and promote sustainable development. By addressing these challenges and building on its strengths, Morocco is well-positioned to continue attracting significant FDI and driving economic growth in the coming years.

### ***Case Studies of Chinese Foreign Direct Investment in Morocco***

Over the past two decades, Chinese foreign direct investment (FDI) has grown significantly across the globe, with Africa becoming a key recipient. Among African nations, Morocco has emerged as a strategic partner for China, benefiting from substantial investments in various sectors. This burgeoning economic relationship reflects China's broader strategy to enhance its influence and economic presence in Africa while providing Morocco with essential capital, technology, and infrastructure development. The following overview delves into the patterns, motivations, and impacts of Chinese investments in Morocco, highlighting key sectors and projects that exemplify this dynamic economic partnership.<sup>28</sup>

#### **Overview of Chinese Investments in Morocco**

One of the most significant areas of Chinese investment in Morocco is infrastructure and industrial development. China has been instrumental in financing and constructing major projects such as the Mohammed VI Tangier Tech City. This \$10 billion project, which aims to transform Tangier into a high-tech industrial hub, is expected to create over 100,000 jobs and attract numerous global tech firms. The project underscores China's commitment to enhancing Morocco's industrial capacity and integrating it into the global value chain. Additionally, Chinese companies have been involved in building roads, bridges, and other critical infrastructure, further boosting Morocco's economic prospects and connectivity.<sup>29</sup>

The energy sector is another focal point of Chinese investment in Morocco. China has invested heavily in renewable energy projects, aligning with Morocco's goal of sourcing 52% of its energy from renewable sources by 2030. Notable projects include the construction of solar power plants and wind farms, such as the Noor Solar Complex, one of the largest solar power facilities in the world. Chinese firms like China Energy Engineering Corporation and China Machinery Engineering Corporation have been pivotal in these initiatives, providing technology and expertise that drive Morocco's transition towards sustainable energy. This collaboration not only helps Morocco achieve its energy targets but also positions China as a leader in global renewable energy markets.

In addition to infrastructure and energy, Chinese investments have significantly impacted Morocco's trade and economic zones. The establishment of the Tangier Med Port, one of the largest ports in Africa, has been a game-changer for Morocco's logistics and trade sectors. Chinese investment in this port has enhanced its capacity to handle increased cargo traffic, facilitating smoother trade routes between Africa, Europe, and Asia. Furthermore, Chinese enterprises have established numerous joint ventures in Moroccan free trade zones, boosting manufacturing and export activities. These economic zones provide a conducive environment for businesses, offering tax incentives and strategic locations that attract further foreign investments.

Beyond economic gains, Chinese investments in Morocco have fostered stronger bilateral relations and cultural exchange. High-level visits between Chinese and Moroccan officials have become more frequent, reflecting a deepening diplomatic relationship. Educational and cultural exchanges, including scholarships for Moroccan students to study in China and the establishment of Confucius Institutes in Morocco, have

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<sup>28</sup> Ali, Walid, and Ali Mna. "The effect of FDI on domestic investment and economic growth case of three Maghreb countries: Tunisia, Algeria and Morocco." *International Journal of Law and Management* 61.1 (2019). Pp. 91-105.

<sup>29</sup> Soussane, Jihad Ait, and Zahra Mansouri. "Do the Belt and Road Initiative and Chinese Investments Promote Moroccan FDI in African Countries?: An Empirical Investigation Using Panel Data." *Opportunities and challenges for multinational enterprises and foreign direct investment in the belt and road initiative*. IGI Global, (2022). Pp. 102-121.

further solidified this partnership. These initiatives promote mutual understanding and cooperation, creating a foundation for sustainable and long-term collaboration. As a result, the Sino-Moroccan relationship extends beyond mere economic transactions, encompassing a broader spectrum of social and cultural ties that benefit both nations.<sup>30</sup>

Chinese investments in Morocco span multiple sectors, driving infrastructure development, energy sustainability, trade enhancement, and cultural exchange. This multifaceted approach not only contributes to Morocco's economic growth but also strengthens the bilateral ties between the two nations, paving the way for a prosperous and collaborative future.

### **Infrastructure Development of Chinese Investments in Morocco**

Chinese investment in Morocco's infrastructure sector has been instrumental in transforming the country's transportation and urban development landscape. Over the past decade, Chinese companies have actively participated in constructing key infrastructure projects such as roads, bridges, and ports. One of the most notable projects is the development of the Tanger Med Port, which has significantly boosted Morocco's position as a strategic trade hub between Europe and Africa. The involvement of Chinese firms has not only brought in substantial financial investment but also advanced engineering expertise, ensuring the completion of projects within tight schedules and budgets.<sup>31</sup>

The Belt and Road Initiative (BRI) has been a significant driver of Chinese infrastructure investment in Morocco. This initiative aims to enhance global trade routes by developing infrastructure in participating countries. Morocco, with its strategic location, has become a crucial partner in the BRI. Chinese investments have also extended to urban development projects, such as the construction of modern housing complexes and business districts. These projects are designed to meet the growing urbanization needs of Moroccan cities, providing improved living standards and boosting local economies.<sup>32</sup>

In addition to large-scale infrastructure projects, Chinese investments have also focused on sustainable and green infrastructure. This includes the development of renewable energy projects such as solar and wind farms, which are essential for Morocco's energy diversification strategy. By leveraging Chinese technology and investment, Morocco is making significant strides towards becoming a regional leader in renewable energy production. Overall, Chinese involvement in Morocco's infrastructure sector has been a catalyst for economic growth, modernization, and enhanced connectivity within the country and beyond.

### **Chinese Manufacturing and Industry in Morocco**

The manufacturing sector in Morocco has witnessed substantial growth due to Chinese investments. Chinese firms have established numerous manufacturing plants in the country, contributing to the development of various industries, including automotive, electronics, and textiles. For instance, BYD, a leading Chinese electric vehicle manufacturer, has set up a factory in Tangier, which not only produces electric buses and cars but also serves as a hub for research and development. This investment has created numerous job opportunities for local communities and has facilitated the transfer of advanced manufacturing technologies.<sup>33</sup>

In the textile industry, Chinese investments have revitalized Morocco's traditional textile sector by introducing modern production techniques and expanding export capabilities. Chinese companies have partnered with local firms to upgrade textile manufacturing facilities, enhancing their efficiency and product quality. This collaboration has enabled Moroccan textile products to compete more effectively in

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<sup>30</sup> Bouoiyour, Jamal. "The determining factors of foreign direct investment in Morocco." *Savings and Development* (2007): 91-106.

<sup>31</sup> Zhang, Chuchu, and Chaowei Xiao. "China's infrastructure diplomacy in the Mediterranean region under the Belt And Road Initiative: Challenges ahead?." *Mediterranean Politics* 28.5 (2023): 704-728.

<sup>32</sup> Hoh, Anchi. "China's belt and road initiative in Central Asia and the Middle East." *Digest of Middle East Studies* 28.2 (2019): 241-276.

<sup>33</sup> El Khatir, Nada. "The competitive positioning of Moroccan automotive industry: A diagnosis attempt." *International Journal of Innovation and Applied Studies* 33.2 (2021). Pp. 385-394.

international markets, driving export growth and contributing to the country's economic development. Additionally, the presence of Chinese manufacturing firms has encouraged the establishment of supporting industries, further strengthening the industrial ecosystem in Morocco.<sup>34</sup>

Chinese investments have played a crucial role in developing Morocco's industrial zones, which are designed to attract foreign direct investment and promote industrial growth. These zones offer state-of-the-art infrastructure, tax incentives, and streamlined administrative processes to facilitate business operations. The Tangier Free Zone, for example, has become a significant industrial hub, hosting numerous Chinese manufacturing companies. The success of these industrial zones has not only boosted Morocco's manufacturing output but also positioned the country as a competitive destination for global manufacturing and industrial activities.

### **Technological Transfer and Innovation through Chinese Investments in Morocco**

The establishment of research and development centers by Chinese firms has facilitated the exchange of knowledge and expertise, promoting innovation in key industries such as telecommunications, renewable energy, and agriculture. Huawei, a leading Chinese technology company, has set up an innovation center in Casablanca, which focuses on developing cutting-edge solutions in areas like 5G, artificial intelligence, and cloud computing. This center has fostered collaboration between Chinese and Moroccan engineers, accelerating technological advancements and enhancing local capabilities.<sup>35</sup>

In the renewable energy sector, Chinese investments have introduced advanced technologies that have revolutionized Morocco's energy landscape. Projects such as the Noor Ouarzazate Solar Complex, developed in partnership with Chinese firms, have integrated state-of-the-art solar technologies to maximize energy efficiency and output. The knowledge and expertise shared through these projects have enabled Moroccan engineers and technicians to acquire new skills, enhancing the country's capacity to develop and manage renewable energy projects independently. This technological transfer has also spurred innovation in related sectors, such as energy storage and smart grid solutions.<sup>36</sup>

Chinese investments in Morocco's agriculture sector have introduced modern farming techniques and technologies that have boosted productivity and sustainability. Chinese firms have collaborated with local agricultural research institutes to develop high-yield crop varieties, efficient irrigation systems, and advanced pest management solutions. These innovations have not only increased agricultural output but also improved the resilience of Moroccan agriculture to climate change.<sup>37</sup> The transfer of agricultural technologies has empowered local farmers with the tools and knowledge needed to adopt sustainable practices, ensuring long-term food security and economic stability. Overall, Chinese investments have been a driving force behind technological transfer and innovation in Morocco, contributing to the country's development and modernization.

### **Optimizing the Investment Environment**

Optimizing the investment environment is crucial for attracting and retaining foreign investors. Firstly, Morocco must continue to enhance its regulatory framework to ensure transparency, predictability, and efficiency. Streamlining administrative procedures and reducing bureaucratic red tape can significantly lower the cost of doing business. Implementing clear and consistent policies, especially regarding taxation and labor laws, can create a more stable and attractive environment for investors. Additionally,

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<sup>34</sup> Amachraa, Abdelmonim, and Bertrand Quelin. "Morocco emergence in global value chains: Four exemplary industries." Policy Center for the New South (2022).

<sup>35</sup> Roumate, Fatima. "Artificial Intelligence Transformation in the Industry: Challenges and Opportunities." International scientific conference on Digital Transformation in Industry: Trends, Management, Strategies. Cham: Springer Nature Switzerland, (2022).

<sup>36</sup> Ainou, Fatima Zahra, Mohsin Ali, and Muhammad Sadiq. "Green energy security assessment in Morocco: green finance as a step toward sustainable energy transition." Environmental Science and Pollution Research 30.22 (2023).

<sup>37</sup> Chaziza, Mordechai. "China Partnership Diplomacy with Morocco and the New Silk Road Strategy." The Maghreb Review 49.2 (2024): 99-119.

strengthening the rule of law and ensuring the enforcement of contracts and property rights are essential steps in building investor confidence.

Morocco should invest in infrastructure development to support business operations. This includes improving transportation networks, such as roads, ports, and airports, which are vital for the efficient movement of goods and people. Enhancing digital infrastructure is equally important, as a robust telecommunications network can support the needs of modern businesses and facilitate the flow of information. Furthermore, ensuring reliable access to utilities like electricity and water can prevent operational disruptions and make Morocco a more competitive destination for FDI.

Creating a favorable investment climate involves fostering a skilled workforce. Education and training programs tailored to the needs of various industries can help bridge the skills gap and provide businesses with the talent they require. Collaboration between the government, educational institutions, and the private sector can lead to the development of curricula that align with market demands. Additionally, offering incentives for businesses to invest in employee training can enhance workforce capabilities, further making Morocco an attractive destination for foreign investors.

### **Enhancing Innovation Capabilities**

To enhance Morocco's innovation capabilities through FDI, the country must first focus on creating a robust ecosystem that encourages research and development (R&D). This involves increasing public and private sector investments in R&D activities, establishing innovation hubs, and supporting startup incubators. By fostering partnerships between universities, research institutions, and businesses, Morocco can drive technological advancements and promote knowledge transfer. Creating incentives for foreign companies to establish R&D centers in Morocco can also stimulate innovation and bring cutting-edge technologies to the local market.<sup>38</sup>

Fostering a culture of innovation requires a supportive policy environment. The Moroccan government should develop policies that encourage entrepreneurship and innovation, such as offering tax incentives for companies that invest in R&D and providing grants or subsidies for innovative projects. Intellectual property rights protection is also crucial, as it ensures that innovators can reap the benefits of their inventions without fear of infringement. Strengthening patent laws and enforcement mechanisms can make Morocco a safer place for companies to innovate and invest in new technologies.<sup>39</sup>

Enhancing innovation capabilities involves building a skilled workforce that can drive and sustain innovation. This can be achieved by reforming the education system to emphasize science, technology, engineering, and mathematics (STEM) fields and fostering a culture of continuous learning and adaptability. Encouraging collaboration between educational institutions and industries can ensure that graduates possess the skills needed in the modern economy. Additionally, attracting global talent through favorable immigration policies can bring in diverse perspectives and expertise, further bolstering Morocco's innovation landscape.

### **Promoting Regional Development**

Promoting regional development is essential for balanced economic growth and maximizing the benefits of FDI across Morocco. One approach is to develop and implement regional development plans that align with national economic goals. These plans should focus on leveraging the unique strengths and resources of each region, whether it's natural resources, geographic location, or existing industrial bases. By identifying and

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<sup>38</sup> Soussane, Jihad Ait, Amine Chentouf, and Zahra Mansouri. "Does Moroccan diaspora play a role in the location of Moroccan FDI? An empirical investigation on outward FDI into 46 host countries." *Transnational Corporations Review* 16.2 (2024).

<sup>39</sup> Mahia, Ramon, Rafael de Arce, and Eva Medina. "Assessing the future of a CSP industry in Morocco." *Energy policy* 69 (2014). Pp.586-597.

nurturing regional clusters, Morocco can create specialized economic zones that attract targeted foreign investments and foster regional competitiveness.<sup>40</sup>

Furthermore, infrastructure development is key to promoting regional development. Investing in transportation and connectivity projects, such as highways, railways, and ports, can integrate remote and underdeveloped regions into the national economy. Improved infrastructure can reduce logistical costs, making it easier for businesses to operate and export goods. Additionally, enhancing access to digital infrastructure in rural areas can support the growth of technology-driven businesses and remote work opportunities, thereby reducing regional disparities.<sup>41</sup>

Promoting regional development also involves creating favorable conditions for businesses to thrive in less-developed areas. This can be achieved through targeted incentives, such as tax breaks, subsidies, and grants, to encourage investment in these regions. Establishing business incubators and innovation hubs outside of major cities can attract startups and SMEs, fostering local entrepreneurship and job creation. Moreover, investing in education and vocational training tailored to regional needs can equip the local workforce with the skills required by emerging industries, ensuring that economic growth benefits all parts of the country.

### ***Morocco's Investment Climate Statement for 2023***

Morocco is leveraging its strategic location at the crossroads of Europe, Sub-Saharan Africa, and the Middle East to establish itself as a regional business hub. The nation aims to enhance its role as a manufacturing and export base for international companies by promoting foreign investment through favorable macroeconomic policies, trade liberalization, investment incentives, and structural reforms. The Moroccan government is focused on creating jobs, attracting foreign investment, and boosting key revenue sectors, especially in value-added industries like renewables, automotive, aerospace, textile, pharmaceuticals, outsourcing, and agro-industry.<sup>42</sup>

To support its development goals, Morocco continues to invest heavily in renewable energy, with a target of achieving 52 percent total installed capacity by 2030. The New Development Model, launched in April 2021, outlines ambitions to increase the share of renewable energy in total consumption from 19.5 percent in 2021 to 40 percent by 2035. Key opportunities for green investment include smart grids, green hydrogen, energy storage, and renewable energy projects.

According to the UNCTAD's World Investment Report 2022, Morocco was the ninth-largest recipient of foreign direct investment (FDI) in Africa in 2021, with FDI inflows increasing by 52 percent to \$2.2 billion. France, the UAE, and Spain are the leading investors, with the manufacturing sector attracting the most FDI, followed by real estate, telecommunications, tourism, and energy. Morocco positions itself as the "gateway to Africa," underscored by its return to the African Union in 2017 and the establishment of the African Continental Free Trade Area (CFTA) in 2021. The expansion of the Tangier-Med port, now the largest in Africa and the Mediterranean, and the development of high-speed rail services further bolster this role.<sup>43</sup>

Morocco has ratified 72 investment treaties and 62 economic agreements aimed at eliminating double taxation and promoting investment, including with the United States and most EU countries. Morocco's Free Trade Agreement (FTA) with the United States, the only one of its kind on the African continent, eliminates tariffs on over 95 percent of qualifying goods and supports Morocco's goal of becoming a regional financial

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<sup>40</sup> Lall, Somik, et al. Leveraging Urbanization to Promote a New Growth Model While Reducing Territorial Disparities in Morocco: Urban and Regional Development Policy Note. World Bank Publications, (2019).

<sup>41</sup> Rachid, Y. and EL OUDRI Abdelkader. "Institutional Quality and Regional Development in Morocco." African Scientific Journal 3.21 (2023). Pp. 476-476.

<sup>42</sup> Bachegour, Hikma, et al. "Integrating Climate Policy, Social inclusion, and Indigenous Knowledge: Toward a Holistic Approach for Morocco's Sustainable Future." International Journal of Accounting, Finance, Auditing, Management and Economics 4.5-1 (2023).Pp. 45-59.

<sup>43</sup> UNCTAD's World Investment Report 2022

and trade hub. This agreement has significantly boosted bilateral trade, with ongoing efforts to enhance trade and investment through high-level consultations and bilateral dialogue.

Morocco has had a Bilateral Investment Treaty (BIT) with the United States since 1991 and an FTA since 2006. The country has signed BITs with 75 countries, with 51 currently in force. Notable agreements include the EU Association Agreement, which created a free trade zone in 2012. However, in 2021, the European Court of Justice annulled two bilateral agreements with the EU, leading to ongoing appeals aimed at resolving the issues and reinstating these agreements in 2023.

In 2008, Morocco was granted "advanced status" by the EU, facilitating closer economic integration by reducing non-tariff barriers, liberalizing trade in services, protecting investments, and standardizing regulations. This status has helped Morocco enhance its economic ties with the EU.

On March 3, 2018, Morocco joined 54 other African states in forming the African Continental Free Trade Area (CFTA), creating a vast market with over 1.2 billion people and a combined GDP of over \$3 trillion. The CFTA, part of the African Union's Agenda 2063, came into force on January 1, 2021, with Morocco ratifying the agreement in April 2022.<sup>44</sup>

The United States and Morocco signed an income tax treaty in 1977, and Morocco is part of the OECD Inclusive Framework on Base Erosion and Profit Sharing, including the global minimum corporate tax agreement reached in October 2021. This framework aims to address global tax challenges and ensure fair taxation practices.

### FDI Data for Morocco

Year	FDI Inflows (in billion USD)	Major Investor Countries	Sectors Attracting FDI
2018	3.6	France, UAE, Spain	Manufacturing, Real Estate, Telecommunications, Tourism, Energy, Mines
2019	1.7	France, UAE, Spain	Manufacturing, Real Estate, Telecommunications, Tourism, Energy, Mines
2020	1.7	France, UAE, Spain	Manufacturing, Real Estate, Telecommunications, Tourism, Energy, Mines
2021	2.2	France, UAE, Spain	Manufacturing, Real Estate, Telecommunications, Tourism, Energy, Mines
2022	TBD	France, UAE, Spain	Manufacturing, Real Estate, Telecommunications, Tourism, Energy, Mines
2023	TBD	France, UAE, Spain	Manufacturing, Real Estate, Telecommunications, Tourism, Energy, Mines
2024	TBD	France, UAE, Spain	Manufacturing, Real Estate, Telecommunications, Tourism, Energy, Mines

Morocco's commitment to expanding its renewable energy capacity as part of its New Development Model has positioned the country as a significant destination for green investment. By aiming to increase the share of renewable energy in its total energy consumption from 19.5 percent in 2021 to 40 percent by 2035, Morocco is creating opportunities in smart grids, green hydrogen, energy storage, and renewable energy sectors.<sup>45</sup> This strategic focus aligns with Morocco's broader ambition to boost its economic development and integrate more deeply into the global economy. The substantial investments in infrastructure, including

<sup>44</sup> Saygili, Meysut, Ralph Peters, and Christian Knebel. "African continental free trade area: challenges and opportunities of tariff reductions." UNCTAD Blue Series Papers 82 (2018).

<sup>45</sup> Cherif, Moëz, Javier Díaz-Cassou, and Carole Megevand. "Climate Change and Development in Morocco." Morocco's Quest for Stronger and Inclusive Growth (2023).

the expansion of the Tangier-Med commercial shipping port and the high-speed train service connecting Tangier, Rabat, and Casablanca, further enhance Morocco's attractiveness to foreign investors.

Morocco has shown a significant recovery in foreign direct investment (FDI), with inbound FDI rising by 52 percent to \$2.2 billion in 2021, following a dip in 2019 and 2020 where FDI stood at \$1.7 billion. The peak in 2018 was \$3.6 billion, indicating fluctuating but resilient investor confidence. France, the UAE, and Spain are the primary contributors to Morocco's FDI, reflecting strong international economic ties. The manufacturing sector attracts the highest share of FDI, followed by real estate, telecommunications, tourism, and energy and mines.<sup>46</sup> Morocco's strategic initiatives, such as the New Development Model aiming to increase renewable energy consumption, the expansion of the Tangier-Med port, and the high-speed rail link, position it as a pivotal "gateway to Africa." However, ongoing issues like weak intellectual property rights enforcement, bureaucratic inefficiencies, corruption, and slow regulatory reform pose challenges that need addressing to sustain and grow its FDI inflows.<sup>47</sup>

## ***Challenges and Considerations for Foreign Direct Investment in Morocco***

### **Legal and Regulatory Framework**

Morocco has made considerable efforts to enhance its legal and regulatory framework to attract foreign direct investment (FDI). However, inconsistencies and unpredictability in the application of laws remain significant obstacles for potential investors. One of the primary concerns for foreign businesses is the inconsistency in the enforcement of property rights. Despite improvements, the process of securing and protecting property can be fraught with delays and bureaucratic hurdles. Additionally, the enforcement of contracts can be unpredictable, with foreign investors sometimes facing biased judgments that favor local parties. This legal unpredictability can create an environment of uncertainty, making it difficult for foreign businesses to operate with confidence in the Moroccan market.<sup>48</sup>

The protection of intellectual property (IP) is another area where foreign investors face challenges. While Morocco has made strides in aligning its IP laws with international standards, enforcement remains weak. Counterfeit goods and IP infringement are still prevalent, which can deter companies that heavily rely on IP protection. Moreover, the judicial system, despite ongoing reforms, is often perceived as slow and occasionally biased. This perception can lead to prolonged legal battles and increased operational costs for foreign investors. These legal and regulatory challenges underscore the need for Morocco to continue strengthening its legal framework to provide a more predictable and investor-friendly environment.<sup>49</sup>

### **Skilled Labor Shortage**

Morocco's labor force is characterized by its youth and growth potential, yet a notable skills gap poses a significant challenge for foreign investors. The mismatch between the education system and market needs means that many young Moroccans enter the workforce without the skills required by modern industries. Particularly in technical and specialized fields, this gap makes it difficult for foreign companies to find and retain the talent they need to operate effectively. Industries such as information technology, engineering, and advanced manufacturing often struggle to fill positions with adequately trained personnel, which can hamper productivity and growth.

The skills shortage is exacerbated by the lack of targeted vocational training and continuous professional development programs. While there are initiatives to bridge this gap, they are often insufficient to meet the demands of a rapidly evolving market. Foreign investors may need to invest significantly in training programs to bring local employees up to the required standards, adding to their operational costs. Additionally, the competition for skilled workers can lead to high turnover rates, further destabilizing the

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<sup>46</sup> World Investment Report ( 2022 )

<sup>47</sup> THE NEW DEVELOPMENT MODEL, GENERAL REPORT "Releasing energies and regaining trust to accelerate the march of progress and prosperity for all, Morocco, Abril.(2021).

Available at; [https://www.csmd.ma/documents/CSMD\\_Report\\_EN.pdf](https://www.csmd.ma/documents/CSMD_Report_EN.pdf)

<sup>48</sup> Patrick, Dylan. "American Foreign Direct Investment in Morocco: How Can We Help?." (2022).

<sup>49</sup> Lakhbiz, Soukayna, and Abdelkader Aitel mekki. "Impact of Foreign Direct Investment on Economic Growth in Morocco."

workforce for foreign companies. Addressing the skilled labor shortage is crucial for Morocco to enhance its attractiveness as an investment destination.<sup>50</sup>

### **Competition from the Informal Sector**

The informal sector in Morocco represents a substantial portion of the economy and poses a unique challenge for foreign investors. Businesses operating in the informal sector often bypass regulatory frameworks, avoiding taxes and compliance costs that formal enterprises must bear. This creates a competitive disadvantage for foreign investors who are obliged to adhere to local laws and regulations. Informal businesses can offer lower prices due to their reduced operational costs, making it difficult for formal, compliant companies to compete, particularly in price-sensitive markets.<sup>51</sup>

Moreover, the prevalence of the informal sector can distort market dynamics and undermine efforts to create a level playing field. Foreign investors may find it challenging to compete in sectors where informal businesses dominate, as these enterprises can operate more flexibly and with fewer restrictions. This situation not only affects profitability but also discourages foreign investment in certain industries. Addressing the dominance of the informal sector requires comprehensive regulatory reforms and robust enforcement mechanisms to ensure that all businesses operate under the same legal and fiscal conditions.

### **Trade and Investment Barriers**

Despite Morocco's numerous trade agreements and its participation in various international organizations, certain trade and investment barriers continue to hinder foreign investment. Tariff and non-tariff barriers can significantly increase the cost of importing goods and services, making it less attractive for foreign companies to operate in Morocco. Complex customs procedures and regulatory standards that may not align with those of investors' home countries add to the difficulty and expense of doing business. These barriers can deter potential investors by increasing the operational complexity and costs associated with entering and sustaining a presence in the Moroccan market.<sup>52</sup> Furthermore, discrepancies in regulatory standards can create additional challenges for foreign investors. Compliance with local regulations, which may differ significantly from international norms, requires considerable effort and resources. These regulatory barriers can be particularly burdensome for small and medium-sized enterprises (SMEs) investing in Morocco. Streamlining trade procedures and harmonizing regulatory standards with international practices are essential to reduce these barriers and enhance Morocco's attractiveness as an investment destination.

### **Environmental and Social Considerations**

Environmental and social governance (ESG) issues are increasingly important to foreign investors, and Morocco faces several challenges in these areas. Environmental sustainability is a growing concern, with issues such as water scarcity, pollution, and waste management posing significant risks. Foreign companies committed to corporate social responsibility (CSR) may need to invest heavily in environmental compliance and sustainability initiatives to mitigate these risks. Such investments can add to the cost of doing business in Morocco, potentially deterring companies that prioritize ESG criteria in their investment decisions.<sup>53</sup>

In addition to environmental concerns, labor rights and social impacts are critical considerations for foreign investors. Morocco has made progress in improving labor standards, but issues such as working conditions, wages, and workers' rights remain areas of concern. Companies operating in Morocco must navigate these

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<sup>50</sup> Griguer, Sara, and Imad Ait Lhassan. "The determinants of foreign direct investment localization: An empirical analysis of the Moroccan automotive industry." *Multidisciplinary Science Journal* 6.11 (2024).

<sup>51</sup> Gatti, Roberta, Diego F. Angel-Urdinola, and Joana Silva. "Striving for better jobs: the challenge of informality in the Middle East and North Africa". World Bank Publications, (2014).

<sup>52</sup> Bouoiyour, Jamal. "The determining factors of foreign direct investment in Morocco." *Savings and Development* (2007). Pp. 91-106.

<sup>53</sup> Outmane, Farrat, Hajji Zouhair, and Benabdallah Hamza. "Environmental, Social, and Governance (ESG) Communication in the Annual Reports of Financial Institutions: Evidence From Morocco." *The Emerald Handbook of Ethical Finance and Corporate Social Responsibility: A Framework for Sustainable Development*. Emerald Publishing Limited, (2024). Pp. 227-246.



social challenges to maintain their CSR commitments and avoid reputational risks. Addressing these ESG issues requires coordinated efforts from the government, businesses, and civil society to create a more sustainable and socially responsible investment climate.

### **Conclusion**

FDI plays a pivotal role in the economic development of host countries, including Morocco. The relationship between FDI and economic development is often taken for granted, with the assumption that foreign presence invariably stimulates local productivity and fosters broader economic growth. However, this relationship is far more nuanced, hinging critically on the technological capability gap between foreign and domestic firms. This gap can either enhance or hinder the potential benefits of FDI.

While Morocco offers numerous opportunities for foreign direct investment, particularly given its strategic location, growing economy, and government incentives, these challenges must be addressed to create a more conducive environment for FDI. Enhancing bureaucratic efficiency, improving infrastructure, aligning the education system with market needs, ensuring political and economic stability, tackling corruption, and addressing trade barriers are critical steps that Morocco must take to attract and retain foreign investors. By overcoming these challenges, Morocco can position itself as a more competitive and attractive destination for global investment.

The attraction and effective utilization of FDI requires a multifaceted approach. Policy-makers must consider the specific circumstances that influence the extent of spillovers—the beneficial effects that foreign investments can have on the local economy. These circumstances include the characteristics of foreign investors, the nature and capabilities of local firms, the level of human capital, and the overall policy framework within the country.

To maximize the positive spillovers from FDI, Moroccan policymakers need to implement strategies that bridge the productivity gap between foreign and domestic firms. This could involve fostering environments that encourage real technology transfers and enhancing the learning capabilities of local firms. Governments can play a crucial role by mandating that foreign investors contribute to the technological and skill development of domestic industries. This can be achieved through policies that require foreign firms to engage in knowledge-sharing initiatives, provide training programs, and establish partnerships with local enterprises.

Understanding the specific needs and capabilities of both foreign investors and local firms is crucial. By fostering a collaborative ecosystem where foreign and domestic entities can thrive, Morocco can enhance its technological base, improve productivity, and achieve sustainable economic growth. This approach will help Morocco leverage FDI not just as a source of capital but as a catalyst for comprehensive economic development and technological advancement.

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21. Available at; [https://www.csmd.ma/documents/CSMD\\_Report\\_EN.pdf](https://www.csmd.ma/documents/CSMD_Report_EN.pdf)
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