Analysis of the Moroccan Tourism Cluster

Microeconomics of Competitiveness
Country Competitiveness Project

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1. Introduction

Tourism has long been an important sector for Morocco. As early as the beginning of the 20th century, Morocco was positioned as a tourism destination for the people of France. Today, the sector has been identified by the Moroccan government as one of five priority sectors for the country to develop. Indeed, Morocco has several natural advantages that position it well to compete in tourism. These advantages include a highly diverse landscape—including extensive mountain ranges, forests, and coastline—extremely pleasant climate, and widespread knowledge of French among the population, making Morocco a natural vacation destination for the residents of France.

Morocco's tourism sector has exhibited strong growth since the government of the new king Mohammed VI reiterated its status as a strategic sector for the economy in the early 2000s. Indeed, between 2002 and 2007, the number of total tourist nights in Morocco grew at a rate of 6.0% compared to the world average growth rate of 1.6%[1]. However, the sector still faces important challenges in its quest for future growth, which are evidenced by the fact that Egypt's total tourist nights grew by 20.6% over the same period, nearly 3.5 times faster than Morocco's.

In this paper, we seek to diagnose the performance of the Moroccan tourism sector and put forth a series of recommendations aimed towards improving the competitiveness of the sector. In particular, this paper is divided into the following five sections. (1) a review of the overall economic performance of Morocco, (2) an assessment of the overall business policy and environment within Morocco (3) an in-depth analysis of the tourism cluster and (4) an analysis of the strategic issues facing Morocco's tourism cluster and policy recommendations.

[1] Euromonitor International, "Travel and Tourism - Morocco." January 2008.

2. Morocco's Overall Economic Performance

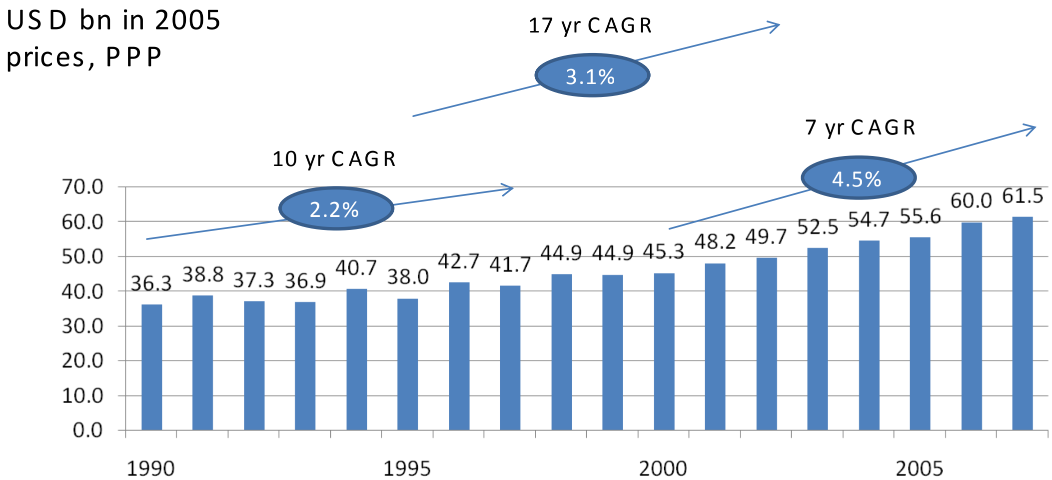
Background

The Kingdom of Morocco is a nation of 37.8 million people located in the extreme north-west corner of the African continent. Occupied by the Spanish and French from 1860 and 1912 respectively, the country gained independence in 1956. A constitutional monarchy, Morocco is governed by King Muhammad VI since he assumed the throne from his father in 1999. While Morocco has an elected bicameral parliament, significant power is concentrated in the hands of the King and the Royal Court.[2]

The Moroccan Economy

Real gross domestic product (GDP) growth has been low, with the economy expanding at a compound annual growth rate (CAGR) of 3.1% between 1990 and 2007. Of note however is the increase in growth since 2000 (at a CAGR of 4.5%), which coincides with the current King's ascendancy to the throne.

Morocco's Real GDP, 1990 - 2005



Source: EIU

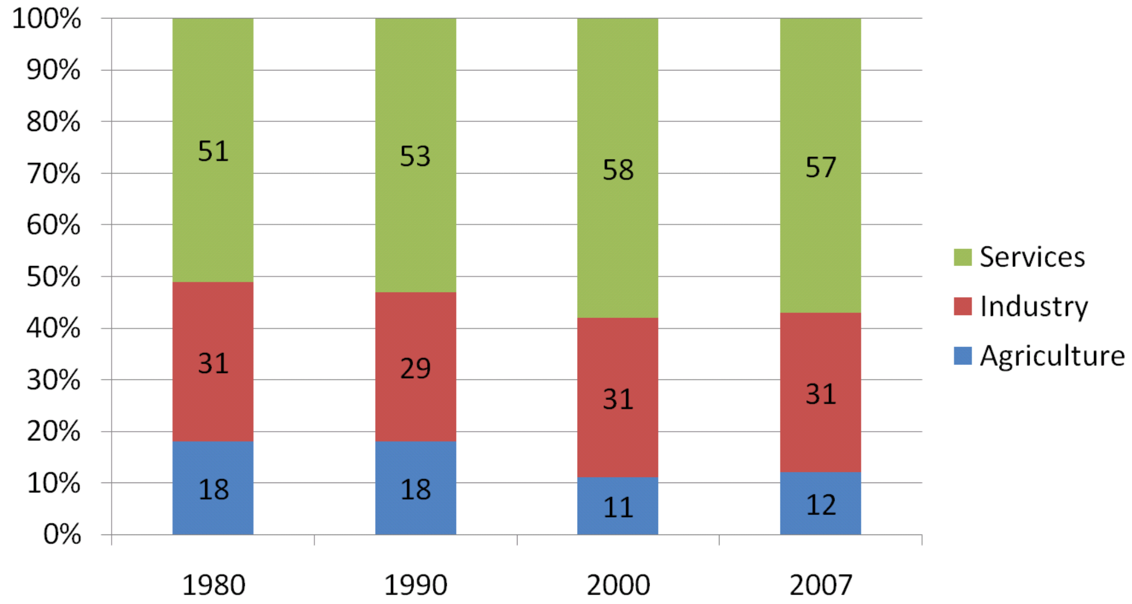
Observers partially attribute the increased growth to the development and implementation of new policies under the current monarch (see section 3 for recent government policy initiatives). GDP per capita on a PPP basis has also performed better, growing an average of 5.6% from 1980 – 2007, and at 7.3% since 2000 (EIU).

[2] CIA World Factbook (https://www.cia.gov/library/publications/the-world-factbook/geos/mo.html), accessed 29 April 2008.

Composition of the Economy

Morocco's economy has been increasingly dominated by the services sector since 1980 in terms of output. Services now comprise approximately 57% of reported output as of 2007, up from 51% in 1980 (EIU). As of the third quarter of 2007, hotels and restaurants directly contribute about 3% of this GDP.

Morocco's GDP Breakdown by Sector



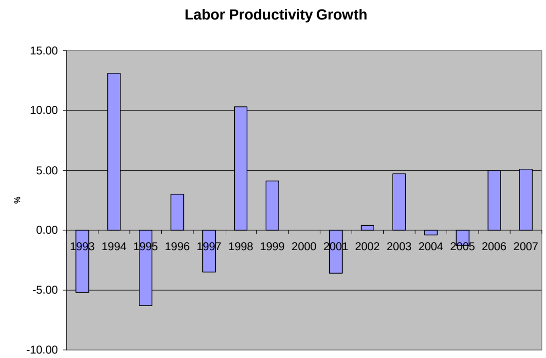
Source: EIU

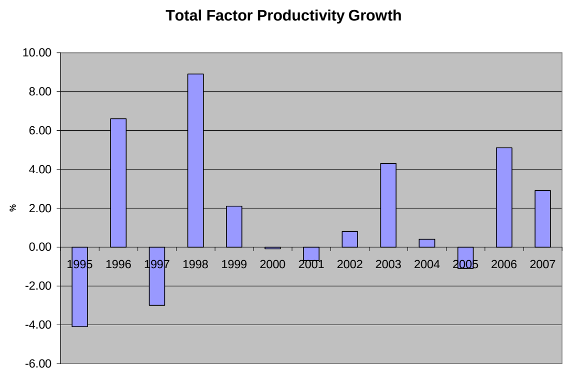
While agriculture is playing an increasingly smaller role in terms of Moroccan output (down to 12% of GDP in 2007 from 18% in 1980), it is still the largest employer in the Moroccan economy, with approximately 44% of workers employed in the sector. [3]

Factor Inputs

Morocco's factor inputs have had widely varying rates of growth. Labor productivity growth has been highly volatile since 1993, the earliest year for which data was available. This can in part be attributed to the large proportion of the labor force that is employed in the agriculture sector, a sector which is heavily reliant on global prices for commodity products (EIU).

[3] Federation of International Trade Associates (http://www.fita.org/countries/morocco.html?ma_rubrique=social) , figures are for 2003.



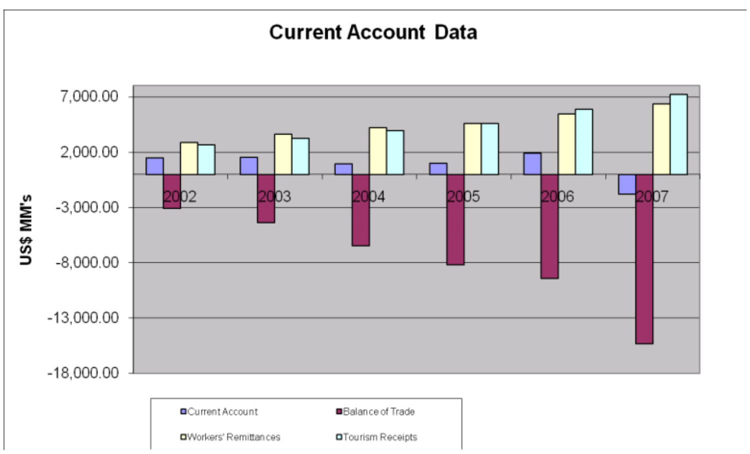


Source: EIU.

Similarly total factor productivity (TFP) growth has been highly variable, both growing and declining significantly in successive years since 1995.

Trade

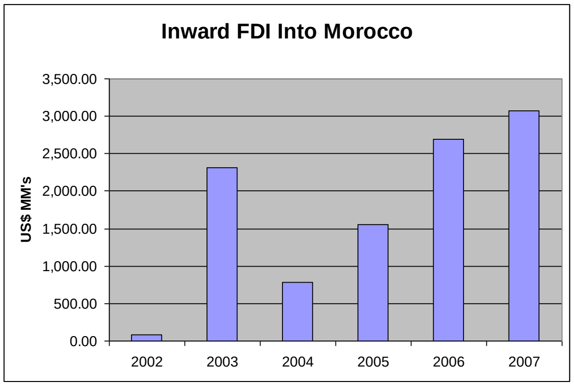
Morocco has maintained a positive current account balance since 2001, valued at US$1.9 billion in 2006. This has been despite the country running a large balance of trade deficit for over 17 years (US$9.5 billion in 2006). An analysis of Morocco's current account indicates that the largest contributors to the surplus are tourism receipts and workers' remittances, both valued in excess of US$6.5 billion in 2006 (EIU).

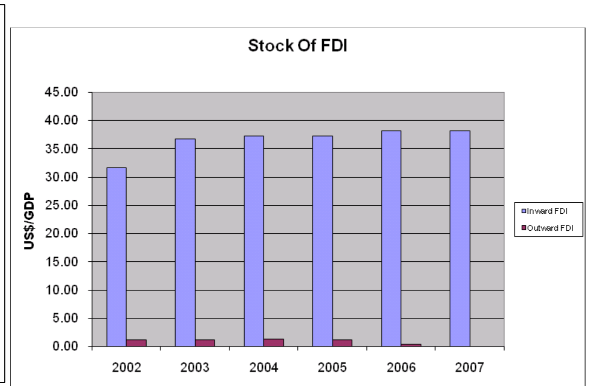


Source: EIU.

Foreign Direct Investment

Inward foreign direct investment (FDI) in Morocco has increased markedly since 2002, rising to over US$3 billion in 2007 (EIU). This has been driven largely by two government policies: the privatization of many state owned enterprises (SOE) and an easing of restrictions on capital flows into the country. This has helped Morocco's inward FDI stock as a proportion of GDP rise up to almost 40% in 2007:



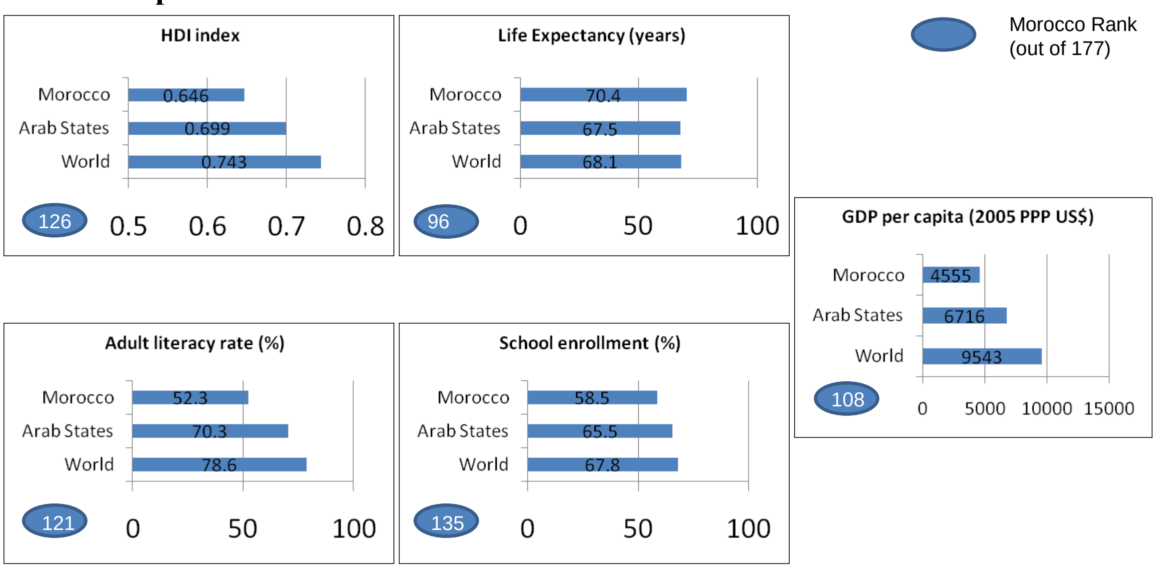


Source: EIU

Social Indicators

When benchmarked against other Arab states, Morocco lags significantly behind its peers on many social indicators, as can be seen from the figure below.

Morocco's performance on various social metrics

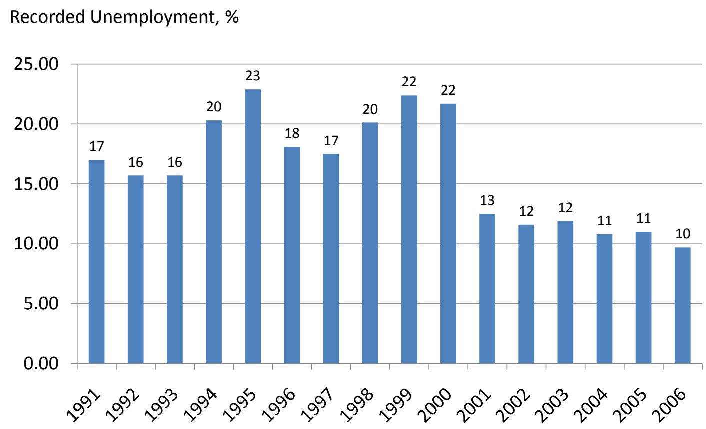


Source: HDI

Based on the World Bank's Human Development Index (HDI), a composite measure of a number of social indicators, Morocco is ranked 126th out of 177 countries. At a score of 0.65 in 2005, versus an average of 0.70 for all Arab states, Morocco's quality of life is significantly below its peers. While life expectancy exceeds the

Arab states' average, Morocco's literacy and school enrolment rates are still persistently below the peer group average.

However, the Moroccan government has made significant progress in decreasing unemployment, particularly following the ascension of the most recent Monarch in 1999. While 10% unemployment in 2006 still remains high, it is far below its recent peak of 23% in 1995.

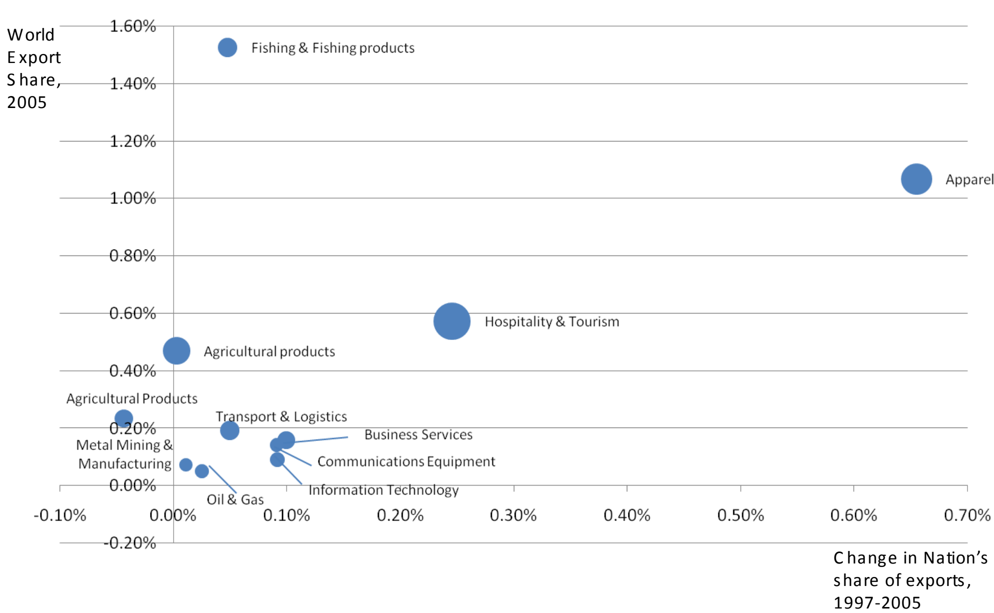


Source: EIU

Economic Clusters

Morocco's economy is dominated by three large clusters--hospitality and tourism, apparel and agriculture products. Growth in manufacturing and services clusters as a share of Morocco's exports has generally shown an increase over the eight years from 1997-2005, while agriculture and basic industries have been declining:

Performance of Selected Clusters within Morocco



Source: International Cluster Competitiveness Project

Hospitality and tourism is by far the largest cluster by export share, and was valued at US$3.9 billion in 2005[4].

3. Assessment of the National Business Environment

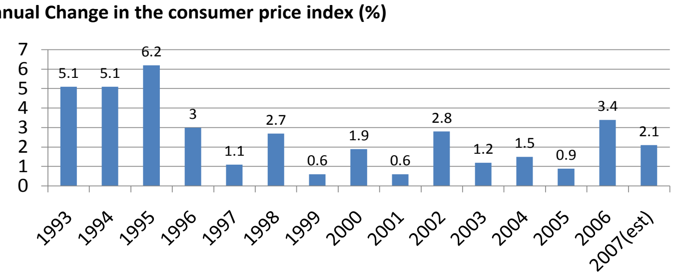
Political, Macroeconomic, Legal and Social Context

The current monarch, King Mohamed VI, has expedited the political reform process since coming to power in 1999. The Economist Intelligence Unit predicts that the political outlook will remain generally stable, although notes possible government challenges due to a “relatively weak parliament,” and as well risks of attacks by Islamic militants, which could disrupt the political process. This is particularly relevant as the main moderate Islamist party, which won the second-largest number of seats in the most recent parliamentary elections, was excluded from the cabinet (EIU Morocco Country Report, 2008). Given this context, the King has been careful to make sure social spending a priority in order to minimize social unrest.

With regards to foreign relations, Morocco has ongoing tensions with neighboring Algeria over the future of Western Sahara, although a plan for more autonomy for the region is currently being discussed. The other foreign policy priority has been improving trade relations with the EU and the US, given the recent signing of several free trade agreements, including the Euro-Mediterranean Free Trade Area with the EU, the Agadir Agreement signed with Egypt, Jordan and Tunisia, and the US-Moroccan Free Trade Agreement.

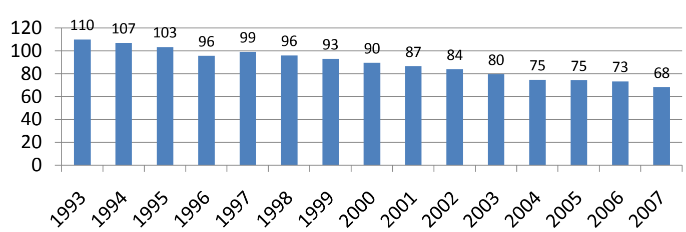
Macroeconomic stability has been increasing, with decreasing levels of inflation, and decreased government budget deficits which have led to declining public debt in proportion to GDP (see exhibit below).

Annual Change in the consumer price index (%)



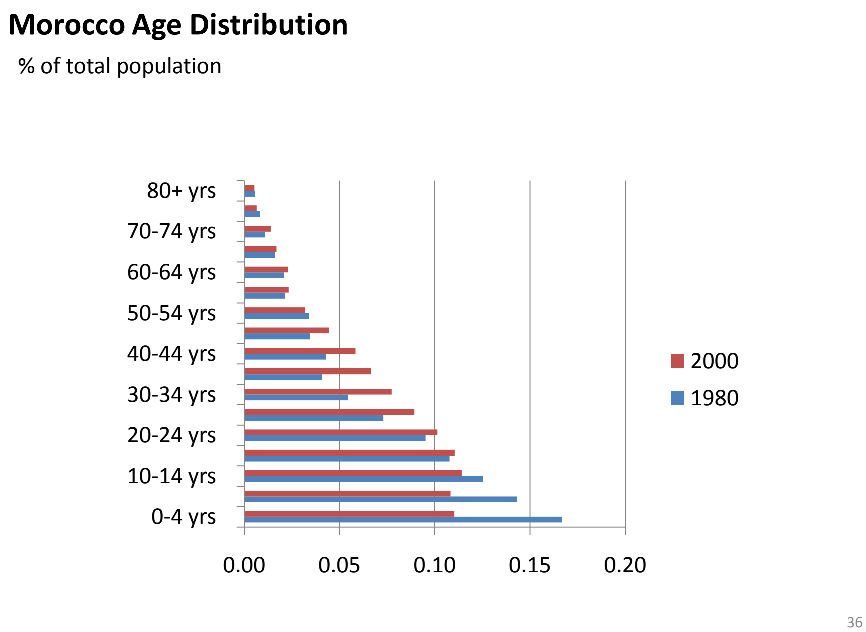
Source: EIU

Public Debt as a Percentage of GDP



[4] Institute for Strategy and Competitiveness

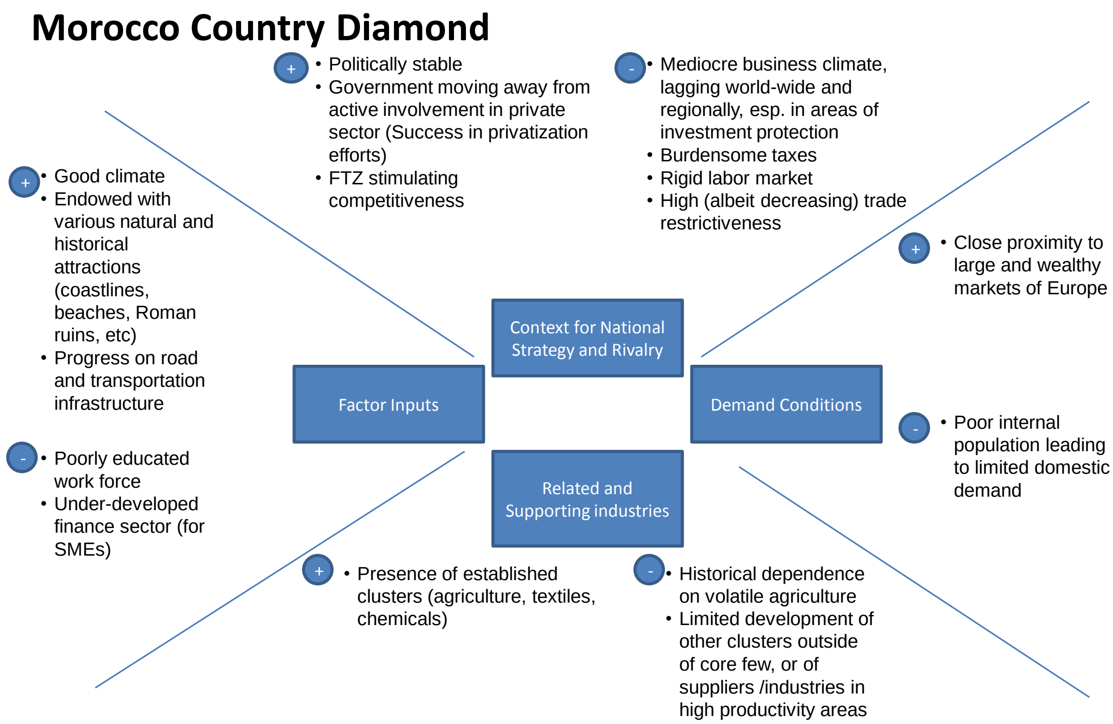
From a social perspective, Morocco is relatively homogeneous, with 99.1% belonging to the Arab-Berber ethnic group, and 98.7% of the population Muslim. While Arabic is the official language, French plays a large role in business and government (CIA World Factbook). As discussed in the previous section, human development indicators are still lagging, and the country is coping with an age pyramid significantly skewed towards younger ages (over 40% of the population was below 20 in 2005), which exacerbates the importance of dealing with potential unemployment (EIU Data Services).



Source: HDI

Country Diamond

Morocco's country diamond shows a mixed picture: While it shows numerous strengths, in terms of natural endowments, a generally market-friendly government, and close proximity to the large and wealthy markets of Europe, Morocco also struggles to overcome the challenges of a low-skilled work force, numerous inflexibilities in the competitive environment, and an economy focused on a relatively small number of clusters.



Source: World Bank, Team Analysis

Factor Conditions

While Morocco has been gifted with numerous historical and natural endowments, some of the human and infrastructural inputs are lacking. Situated on the Mediterranean coast, with diverse natural environments, and rich history which has left its mark on the country, Morocco's landscape provides significant benefit (discussed further in the Cluster section). Progress has been made on improving the transportation and ICT infrastructure (although Morocco's Logistic Performance indicators still slightly lag peer countries) (World Bank *Morocco Trade-at-a-Glance*, 2007). In particular, the government's telecommunications liberalization policy has yielded important dividends for the country, beginning with the sale of a second GSM license in 1999 and the privatization of 35% of the state-owned Maroc Telecom in 2001.[5]

However, as discussed in the country performance section, education is currently lacking, with less than 60% combined primary, secondary and tertiary enrollment, and a lack of highly skilled workers (UNDP Human Development Reports). Indeed, a recent World Bank report found that "only 1.4% of the workforce is

[5] http://www.finance.ma/modules/news/article.php?storyid=19

composed of scientists or engineers and of these 13% are expatriates." The report also noted that Moroccan firms underinvested in employee training programs compared to peer countries: in the industries surveyed, 40% of Korean firms ran formal employee training programs compared to 30% of Thai and Indian firms, and 15% of Moroccan firms (WORLD BANK Pilot Investment Climate Survey, 2000). In addition, recent surveys have shown that capital as a factor input is currently costly, and difficult to access, for smaller firms and entrepreneurial ventures(WORLD BANK *Kingdom of Morocco Country Economic Memorandum,* 2006). For example, in 2000, lending rates were 5.9% in China, 7.8% in Thailand, and 13.3% in Morocco (WORLD BANK Pilot Investment Climate Survey, 2000).

Demand Conditions

The demand conditions are mixed with regards to their effect on competitiveness; given the poor domestic population, and no immediately apparent strict demand requirements from them, the local demand conditions appear at first glance to have minimal impact on competitiveness. However, if one expands Demand Conditions to also include neighboring countries, Morocco's competitiveness gets a large boost from its close proximity to European markets, most specifically Spain and France which are right across the Mediterranean, and which have strong demand for goods and services which are possible to be produced in Morocco at lower cost than could be produced in those markets.

Related and Supporting Industries

Morocco has been successful in developing a limited number of vibrant clusters, in such areas as textiles, agriculture, and tourism. However, Morocco is still struggling to build vibrant cluster bases, with the wider supplier and Institutions for Collaboration (IFC) network accordingly, in a wider number of clusters, and in particular, in clusters with higher levels of value-add per worker, which could then drive up wage levels. This lack of broad base of clusters has led to a heavy reliance on the agricultural sector, leading to large volatility in country output.

Context for National Strategy and Rivalry

In general, the Moroccan government has embraced a free market approach to its economy, with significant competition existing in its local industries. Significant progress has been made in terms of privatization of state-owned enterprises, with more privatizations ongoing. By providing free trade zones, Morocco has been able to create local areas which stimulate competitiveness, and which are shielded from some of the irregular regulation or market failures which may be found in other areas of the country.

However, Morocco is still lagging behind regional and global benchmarks in terms of its ease of doing business, with significant gaps in areas such as protecting investors, employing workers, and contract enforcement (see exhibit below). In addition, administration issues such as gaining access to land has been identified as a severe constraint in public surveys (World Bank *Kingdom of Morocco Country Economic Memorandum,* 2006). As another regulatory constraint, the tax system has been described as burdensome, and is also listed as an "ease of doing business constraint."

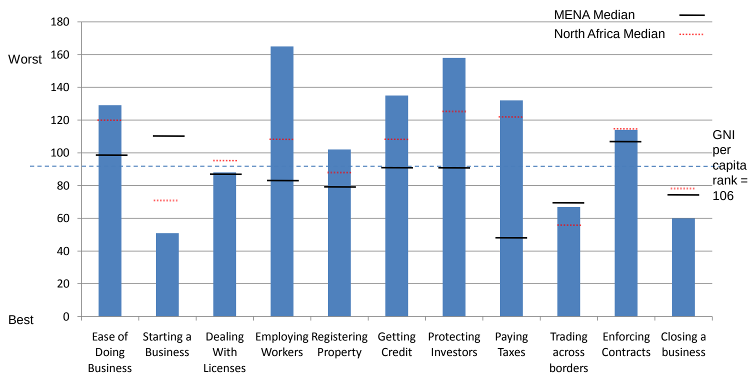
While the corporate tax system is on par with neighboring countries, it is high relative to current global trends; as well, the steeply graded progressive income tax system imposes significant costs on high skilled, and thus high income, employees (World Bank *Kingdom of Morocco Country Economic Memorandum,* 2006).

Significant rigidities in labor regulations, including high firing costs, a high minimum wage, and large indirect charges on labor, have reduced labor market flexibility, and thus Morocco's competitiveness. One recent study comparing the minimum wage and associated labor costs, with the value-add per worker, indicates that significant number of firms are operating with labor productivity below the minimum wage (i.e., all firms to the left of point B in the exhibit below)

In addition, trade restrictions remains high. While free trade agreements have been signed recently, and significant progress has been made on trade liberalization, tariff levels are still high in nominal terms (as compared with a simple average of Most Favored Nation tariffs), and with significant non-tariff barriers and technical regulations which are hindering free trade flow, and thus efficient competition (World Bank, *Kingdom of Morocco Country Economic Memorandum,* 2006).

Ease of Doing Business, Morocco 2008

Context for National Strategy and Rivalry



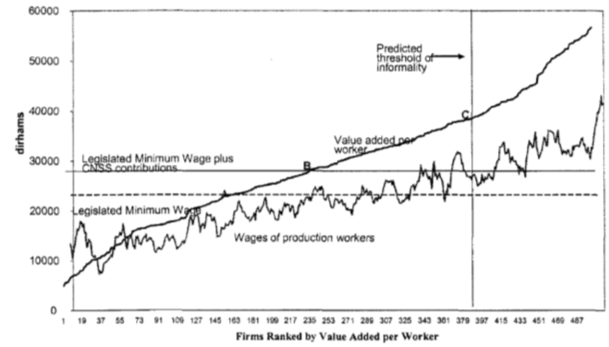
Source: doingbusiness.org(2008)

WORKER PRODUCTIVITY

Excerpted from the World Bank

Context for National Strategy and Rivalry

Figure 35: Value-added per Worker and Average Wages in Manufacturing (ICA 2004)



Source: World Bank *Kingdom of Morocco Country Economic Memorandum*

This has led to Morocco still retaining a high level of Overall Trade Restrictiveness and being ranked 92 out of 95 countries surveyed, per the World Bank (World Bank *Morocco Trade-at-a-Glance,* 2007*).*

Role of Government and IFC's

The government has been actively working to catalyze private sector growth, and fill in certain institutional or infrastructure weaknesses in the economy. As well, social spending and human development improvement have been a high priority, presumably driven partially by a desire to ensure the ongoing legitimacy of the political process and reforms. The government has been pursuing seven policy areas.

i) Increasing Real GDP Growth In order to catalyze economic growth, the government has developed cluster initiatives in sectors in which Morocco is viewed to have a comparative advantage. These clusters include Tourism, Business Process Outsourcing, Food Processing, Automotive, and Electronics. As well, the government has increased public investment in infrastructure projects and public works that would be conducive to continued growth, such as in transportation. Additionally, the 2008 corporate tax rate was reduced from 35% to 30% to spur growth.[6]

[6] http://www.encyclopedia.com/doc/1G1-177787230.html

ii) Reducing Unemployment

The government announced the Employment Initiative in September 2005, with the goal of creating 200,000 jobs over three years (EIU Morocco Country Report, 2008). The initiative was comprised of four main policies: (1) Incentive schemes for enterprises hiring young unemployed workers under short term training contracts. (2) A self-employment program targeting young unemployed willing to create their own business. The government provides 10% of funds, up to MAD 15,000, with banks loaning up to 90% of the investment (with a ceiling of MAD 250,000). (3) Some regional employment funds, (4) The Observatoire National de l'Emploi with a database of indicators on labor supply and demand, and labor intermediation activities.[7]

iii) Increasing Trade

The government has been working on improving Morocco's trade competitiveness, signing Free Trade Agreements with the US and the EU, and reducing the maximum rate of custom duties from 45% to 40% for EU imports only (although significant non-tariff barriers still remain).[8] As well, the government has supported the creation of export consortia through subsidies and technical assistance, and promotion of export marketing through IFC's (see below).

iv) Increasing Investment

The government has attempted to liberalize the internal competitive environment, and to provide incentives to external parties to encourage their investments within Morocco. State-owned enterprises have been privatized in telecommunications, aviation and energy, with more privatizations slated to continue in industrials and financial services. The government has instituted tax breaks and other financial incentives for investments above $20 million. As well, the government has set up a free-zone in Tangiers for export-oriented industries, and has set up BPO office parks with access to financial incentives and high-quality infrastructure (EIU Morocco Country Report, 2008).

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[7] http://www.emarrakech.info/Bientot-un-observatoire-de-l-emploi-au-Maroc_a6216.html
[8] Commission des Communautés Européennes - http://ec.europa.eu/world/enp/pdf/progress2008/sec08_398_fr.pdf

v) Increasing Ease of Doing Business

Given Morocco's poor performance on various "ease of doing business" indicators, Morocco has attempted to address some of its shortcomings. The government initiated "one-stop shop" investment centers (Called *Centres Regionaux d'Investissement, or CRI)* to help in setting up new ventures. This helps to account for Morocco's relatively good ranking in the category of starting a new business. As well, the government launched the *Moukawalati* (Arabic for 'my enterprise') program in July 2006, to act as an incubator for domestic businesses (EIU Morocco Country Report, 2008).

vi) Poverty Alleviation

In 2005, Morocco launched a $2 billion National Human Development Initiative (INDH), in coordination with multiple multilateral agencies. It consists of four main components: (1) Alleviate poverty in rural areas, (2) Alleviate social exclusion in urban areas, (3) Alleviate extreme vulnerability, and (4) Mainstream INDH governance mechanisms and strengthen institutional capacity (Zawya, 2008)

vii) Increasing the Availability of Housing

The Government-initiated *Villes sans bidonvilles* (Cities without Slums) is a series of public-private partnerships to develop new satellite cities near major metropolitan areas. The FOGARIM program provides loans partially guaranteed by the government to foster home ownership among low income populations (Moroccan Ministry of Housing and Urban Development, 2008).[9]

Role of IFCs

Country-wide IFCs have been established, which are acting both to market Morocco as an international supplier, and to serve as a nexus of information between players within the market. Example of some IFCs include the Moroccan Export Promotion Center, the General Federation of Moroccan Enterprises, and the Moroccan Export Association, among others (UN Industrial Development Organization Country Paper Morocco, 2007). However, it is difficult to assess the efficacy of these organizations from public sources.

[9] http://www.mhu.gov.ma/NR/exeres/5B39BC4C-95D0-4163-A998-435B85BB023B.htm

Explaining Country Performance

Overall, we argue that the recent upswing in GDP and the GDP per capita growth rate can be traced to the catalyzing actions of the new Monarch. It is our belief that Morocco has strong fundamentals, in terms of natural endowments, close proximity to wealthy markets, and a fundamentally stable society. The recent period, marked by both political progress and macroeconomic stability, and a visible commitment by the government to improve infrastructure, investment and competitiveness conditions and to trumpet the potential of key sectors, has led to increased confidence by the private sector which has in turn led to growth. However, we believe that gaps still remain in the competitiveness position in such areas as physical infrastructure, human development, and various aspects of the regulatory environment such as investor protection and labor market flexibility, which is impeding Morocco's growth, and has hindered Morocco's diversification away from a volatile agricultural base. While Morocco has made some progress in recent years in improving these gaps, it will be a long process and require continued dedication to fully upgrade Morocco's competitiveness position and achieve its full potential.

Country-wide Recommendations

Competitive Environment

On the country level, the first priority is to improve the competitive environment; market irregularities inhibit the employment of factor inputs, even if those factor inputs exist.

<u>Liberalize Trade Environment</u>

Given the current high levels of trade restrictiveness, Morocco needs to focus on opening up its markets, which would decrease the overall cost of goods and services provided in Morocco. While recently signed free trade agreements were positive, Morocco needs to continue to commit to free trade, exploring how Morocco can gain access to more markets, with further unilateral decreases in tariff rates, as well as examining how non-tariff barriers may be hindering trade (high port costs may be one example).

<u>Liberalize Labor Market</u>

Given the fact that labor productivity in many cases is below mandated wage levels, and the existence of high costs of hiring/firing, the Moroccan government should work on improving labor market flexibility, which should in turn translate into higher labor productivity. While reducing the minimum wage would be politically infeasible, further minimum wage increases should be slowed to below the rate of inflation, to allow productivity to catch up. In addition, excessive severance payment requirements should be decreased. Given the potential societal and political backlash, this should be a slow and gradual process, and maintained hand-in-hand with the ongoing poverty alleviation and unemployment-reduction policies, in order to minimize societal disruption.

<u>Reduce burdensome tax regime</u>

The government should consider rebalancing its taxation policy, in both personal and corporate taxes. Personal income tax gradations should be reviewed to ensure that use of high-skilled labor is not dis-incentivized. While the recent reduction in corporate income tax was a positive step in spurring further growth, the government should continue to monitor peer countries' tax regimes to ensure Moroccan competitiveness.

<u>*Improve key 'Ease of Doing Business factors'*</u>

Given the gaps in Morocco's ease of doing business ranking, the Moroccan government should continue its efforts to improve the domestic business environment. In the short term, this includes enacting a review of judiciary systems to improve contract enforcement, improving bankruptcy legislation, establishing more efficient property registration centers, and ensuring that all government policies/regulations/investment incentives are transparent and clear. To ensure continuous improvement in the long term, the Moroccan government should develop a formal consultative body, with private sector participation, so that government officials can receive feedback from private sector players with regards to areas for further improvement.

Factor Inputs

There are two main areas that need to be continually addressed in order to improve Moroccan factor input quality. The first is to further emphasize human capital development within Morocco. This includes both pushing for higher primary and secondary school enrollment and education quality in interaction with local universities, as well as supporting the development of high-quality vocational education providing advanced technical skills or entrepreneurial training, in conjunction with private sector players. The second large area is in improving the access to capital of small enterprises and start-up ventures. We would propose working with multilateral institutions and foreign capital providers to help improve local banks' skills and abilities to assess and monitor risk with startup ventures, and to help create more effective credit records for small enterprises. These areas are in addition to the government's ongoing work to improve local infrastructure.

4. In-depth Analysis of the Tourism Cluster

The Tourism Cluster Diamond

Factor Inputs and Demand Conditions

Morocco's natural endowments position it well to compete tourism. It has a large diversity of landscapes: the Atlas mountains are high and scenic, more than a 100,000 square kilometers of Morocco are above 2,000 meters high and they go as high as 4,000 meters. There are beautiful forests in the Rif and the Sahara desert attracts many desert enthusiasts and tourist curious of the tribes of Morocco. There are also 530 kilometers of Mediterranean coasts, perfectly suited for family coastal tourism year round, and 2,800 kilometers of Atlantic coast better suited for water sports tourists. Hundreds of kilometers are still open for construction along this gigantic coast.[10]

Morocco's climate is also very advantageous: there are eight hours of sun on average each day year round and coastal locations such as Agadir have more than 300 days of sun per year. The fauna and flora are very diverse, with great tourist attractors such as antelopes, flamingos and golden eagles. The historical assets are also great tourist magnets. Imperial cities such as Marrakech, Fès, Rabat and Meknes are world renowned, and Roman time monuments are all over the country, such as Volubilis, Banasa, Lixus and Tamuda.[11]

[10] http://www.routard.com/guide/maroc/706/geographie_et_climat.htm

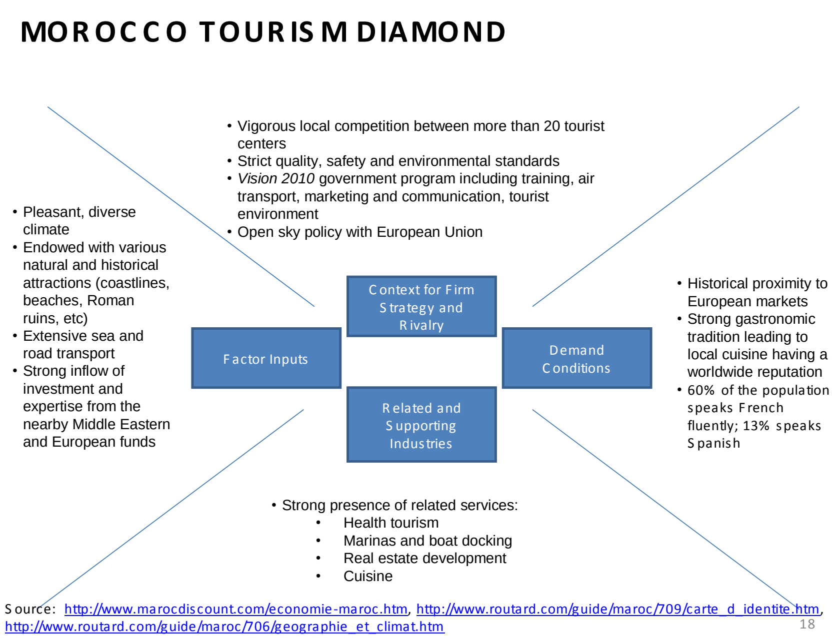
[11] http://www.routard.com/guide/maroc/709/carte_d_identite.htm

The road and transportation system is very well developed in Morocco, making it easy for tourists to travel safely between cities.[12] The fact that many Hollywood major motion pictures were shot in Morocco such as Babel, starring Brad Pitt and Kate Blanchett, is a testimonial to the easy logistics in the country. Morocco's proximity to the European Union is a fantastic competitive advantage.

The main factor limiting Morocco's tourism sector is the population's training and language skills. Indeed, 60% of the population speaks French, and as a result 47% of the tourists are French. As a comparison, only 3% of the population speaks English, and only 10% of the tourists are English speakers. With English becoming the major international language, this is a real weakness of the factor inputs for the cluster.

Context for Firm Strategy & Rivalry and Related & Supporting industries

A strong degree of competition exists within the tourism sector in Morocco. In fact, more than 20 regional tourist centers currently compete energetically against each other, having their own marketing initiatives abroad. The government is pushing Vision 2010 (see next part, Vision 2010) and attracting investors to develop related services such as Marinas (see next part, cluster map). There is no limitation on competition between the private actors in tourism.[13]



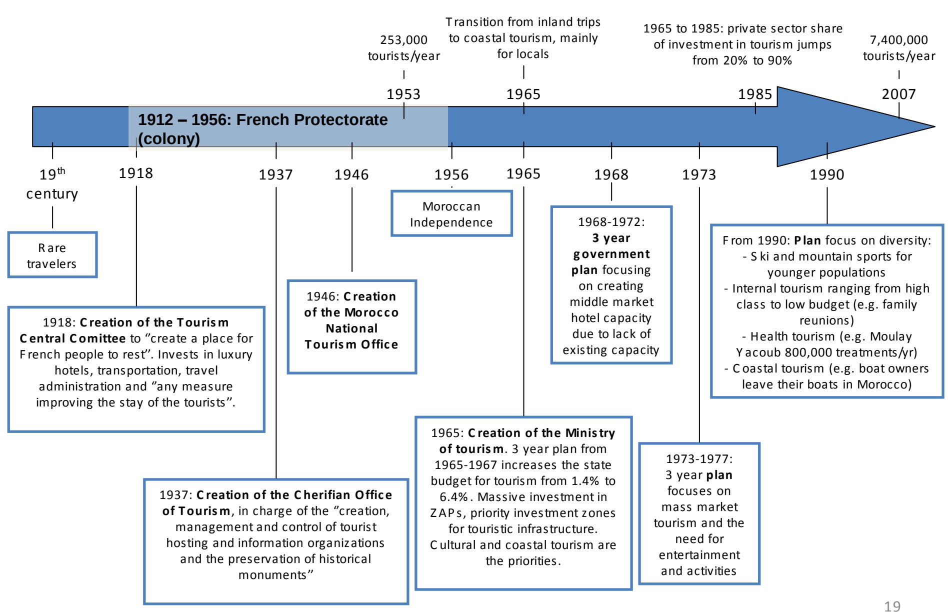
[12] http://www.marocdiscount.com/economie-maroc.htm

[13] Fédération du Tourisme, http://www.fnt-maroc.com/upload/vision2010/Vision%202010.doc, accessed in April 2008

The History of Morocco’s Tourism Sector

The government of Morocco has placed tourism as a priority from the early twentieth century when, as early as 1918, the then French Protectorate created the Tourism Central Committee to “create a place for French people to rest.” The government then invested in luxury hotels, transportation, travel administration, and “any measure improving the stay of tourists.” (Stafford, 1996, quoted by Brault, 2004).

HISTORY OF THE MOROCCAN TOURISM SECTOR



Source: http://www.unesco-paysage.umontreal.ca/travaux_marrakech/tourismefrederick.pdf Stafford, 1996, p.34

An emphasis was put starting in 1937 on preserving historical monuments as a major source of tourism. After the independence of Morocco in 1956, there was a period of transition that diminished the focus of government on tourism, but that allowed for locals to develop for their own use the coastal tourism of Morocco. Starting in 1965, the government created the Ministry of Tourism, and focused on improving the tourism sector’s competitiveness. An important emphasis was placed on this sector relative to others as the government increased the share of the state budget going to tourism from 1.4% to 6.4% in 1965. At this point, the share of the private sector investment in tourism was as low as 20% (Stafford, 1996, quoted by Brault, 2004).

The government’s 3 year plans acted as a real catalyst of the sector, by identifying gaps and trends in the value chain. For example, in the plan from 1965 to 1967, it invested massively in ZAPs, priority investment zones for touristic infrastructures, to guide private investors into developing strong competing locations. As the tourists, building on the coastal tourism trend of locals, and assisted by the low cost mass tourism airline deals, started to be limited by the lack of capacity in middle market hotels, the 1968-1972 plan focused on building that capacity. As a result of this foresight and guidance, as well as the stability of the Moroccan kingdom compared to its neighbors of Algeria and Tunisia, the private sector share of investment jumped from 20% to 90% between 1965 and 1985 (Stafford, 1996, quoted by Brault, 2004).

Starting in 1990, the government has been pushing for a diversification of the tourism cluster to attract more tourists and smooth the seasonal cycles. That includes ski and mountain sports for younger populations, internal tourism ranging from high class to low budget (e.g., family reunions), health tourism (e.g., Moulay Yacoub 800,000 treatment equivalents per year) and leisure sailing tourism (e.g., for boat owners to leave their boats in Morocco) (Berriane, 2002, quoted by Brault, 2004).

In 2007, Morocco attracted 7.4 million tourists per year, of which 47% of the international tourists are French. Meanwhile, 23% of the tourists were locals. This means that Morocco has a real opportunity to diversify its customer base.

Moroccan Government's Most Recent Tourism Sector Policies: Vision 2010

Vision 2010 is the strategy developed by the Moroccan government in concert with the private sector in 2001 to serve as a roadmap for the tourism sector until the year 2010, and to allow the Moroccan tourism cluster to compete effectively with other tourism clusters in the Mediterranean region, in particular with Tunisia, Egypt, and Turkey. The targets of the strategy include attracting 10 million tourists by 2010, compared to 4.4 million in 2001, creating 600,000 new jobs, compared to a total active population in 2006 of 11.3 million (Haut Commissariat au Plan, "Activite, Emploi, et Chomage en 2006"), generating 48 billion Euros in revenues over the 2002-2010 period, compared to annual revenues in 2001 of less than 3 billion Euros, and increasing the hosting capacity to 230,000 beds, compared to 97,000 in 2001 (Ministry of Tourism of Morocco). The aggressive objectives point to the strategic role of the tourism sector in the government's plan to reduce the poverty level, create employment opportunities, and increase the rate of economic growth. Vision 2010 aims for the tourism sector to represent 20% of the national GDP by 2010 (Ministry of Tourism of Morocco).

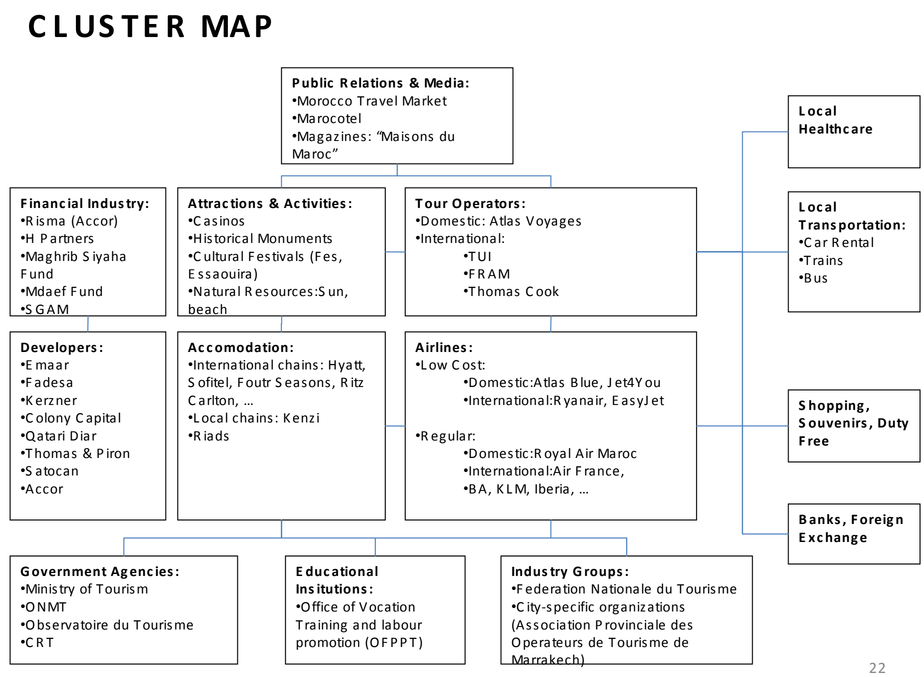
The government has undertaken several measures to support Vision 2010. Three measures in particular stand out because of their crucial effect on the implementation of Vision 2010 and the overall performance of the tourism cluster. First, the government awarded the development of six new coastal tourism zones to reputable developers through a transparent bidding process. The transparency of the process has been crucial to attracting foreign investors given the corruption reputation in Morocco. This initiative, labeled "Plan Azur," represents a significant part of Vision 2010. The six projects, which are Saidia, Port Lixus, Mazagan, Mogador, Taghazout, and Plage Blanche, will cumulatively add 120,000 beds and require more than $5 billion in investments (Ministry of Tourism of Morocco).

Second, the Moroccan government signed an open sky agreement with the European Union, effectively opening Moroccan skies to competition from European carriers. The Moroccan tourism cluster has historically faced a bottleneck at the air transport level as the industry was heavily regulated to protect the national carrier. The open sky agreement had a tremendous effect as dozens of new airlines started operating flights between Morocco and Europe. Two domestic low cost airlines, Jet4U and Atlas Blue have subsequently emerged while established European low lost carries such as Ryanair and Easyjet started operating flights to touristy cities such as Marrakech, Agadir, and Fes.

Third, the government has increased the budget of the ONMT, the entity in charge of the promotion of Morocco (Ministry of Tourism of Morocco). The goal being to maintain the competitiveness of the Moroccan tourism destination in an acutely competitive industry given the constantly changing customer trends and tastes. The established marketing strategy is to focus the promotional effort on the key markets that account for more than 80% of tourists visiting Morocco: France, Spain, Italy, Germany, and the United Kingdom (Ministry of Tourism of Morocco). The promotional strategy includes participating in the major trade shows as well as running advertisement campaigns in the print media and on television. In addition, the "Morocco Travel Market," a trade show that allows Moroccan and international professionals of the tourism industry to meet held its first edition in Marrakech in January 2008.

The government's active policy agenda towards the tourism sector has resulted in the activation of the cluster over the last five years. In addition to the traditional core elements of a tourism cluster such as accommodation, airlines, tour operators, attractions, and government agencies, other entities have played a crucial role in the rapid expansion of the hosting capacity and popularity of the Moroccan destination. In particular, tourism real estate developers and financial institutions have been essential to the implementation of Vision 2010 as they take on the risky tasks of providing capital and building new capacity. The rise of low cost airlines and the rapid increase in the number of flights between Europe and Morocco, mainly due to the open sky agreement, removed a bottleneck that has for long limited the development of tourism cluster.

Tourism Sector Cluster Map



Source: Team analysis

Simultaneously, the pace of building of new hotel rooms reached a peak as investments in the tourism sector boomed. The rise of Marrakech as a jet set destination contributed greatly to attracting high-end tourists and investors to Morocco in general and Marrakech in particular. The popularity of alternative accommodation such as riads, traditional Moroccan houses that are renovated and converted into boutique hotels, has created additional capacity. While the rapid increase in capacity points to the revival of the Moroccan tourism cluster, it also reflects one of the main weaknesses of the cluster which is the low occupancy rate. The increase in the number of tourists, while significant, has not been sufficient to keep up with the additional capacity, causing the occupancy rate to hover at just below 50%. The imminent arrival of additional capacity as the implementation of Vision 2010 and “Plan Azur” advances should be a cause the Moroccan tourism cluster to pause and re-evaluate its current development plans. We do believe, however, that the situation will self-correct over the next few years as the dwindling occupancy rates will cause future plans for additional capacity due to low projected returns.

We believe that the arrival of professional developers of tourism real estate projects such as Fadesa, Emaar, Thomas & Piron, Colony Capital, and Kerzner, have contributed to structuring the cluster as these companies brought with them a high level of expectations and professionalism. In particular, they engaged the local financial industry to take advantage of the abundance of domestic capital (Haut Commissariat au Plan). As a result, domestic banks have developed a high level of competency in evaluating and funding tourism projects. Several funds dedicated to investments in the tourism industry have been created by domestic banks and one of them has successfully listed its shares on the Casablanca Stock Exchange. We believe that the reliance of the Moroccan tourism cluster on foreign investors and developers, while pointing to an increase in the ease of doing business in Morocco, can be considered as a weakness as foreign investors can abruptly change their strategies based on international market conditions. The emergence of local professional investors will reinforce the sustainable and stable development of the Moroccan cluster.

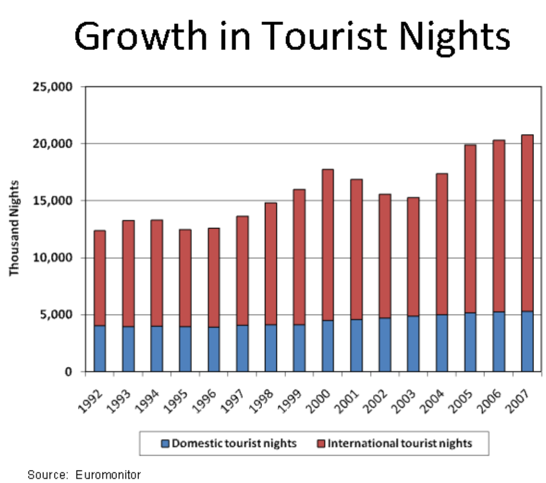
The Moroccan government has been very active in setting ambitious objectives for the tourism cluster. The strategic importance of the tourism cluster in government policy has been crucial as it encouraged international and domestic investors to commit significant resources to the tourism cluster. The creation of “L’Observatoire du Tourisme,” an independent Think Tank that analyzes the key strategic issues facing the Moroccan tourism cluster and the Regional Investment Centers (CRT), a one-stop-shop for investors in the tourism sector are some of the achievements of the Moroccan government. However, we believe that the heavy involvement of the government in the development of the tourism cluster carries significant risks as it is ill-equipped to regularly and objectively reconsider its strategy in view of rapidly shifting international demand and market conditions. We believe that the government must progressively shift its role towards a more regulatory stance, enforcing strict regulations and ensuring that the services delivered by the cluster are of a consistently high level of quality and remain on par with competing clusters.

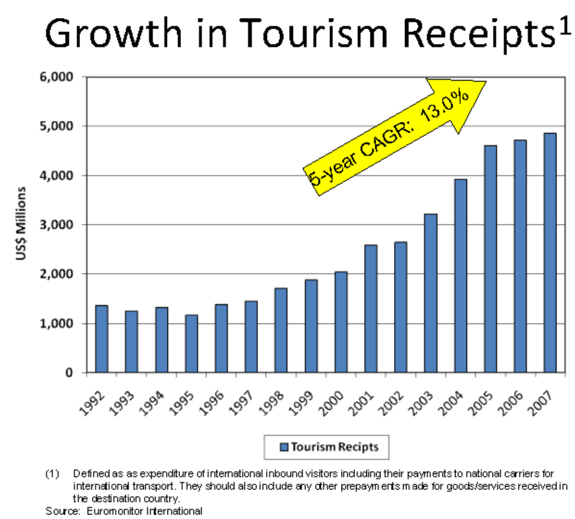
Morocco's Tourism Cluster Performance

Lagging Indicators

The total tourist nights per year and the total tourism receipts (see charts below), have performed well from 2004 to 2007. The total tourist nights had a deceleration from 2001 to 2003. This can be attributed to the worldwide slowdown in the tourism industry in the aftermath of 9/11, especially considering the fact that Morocco is a predominantly Muslim country. However, the stability of the regime, the relative security in Morocco and the favorable international image of the new king, Mohammed VI who succeeded his father Hassan II in 1999, have allowed for a comeback in the growth of tourist nights.

The fact that even while tourist nights were declining, tourism receipts were increasing, indicates a

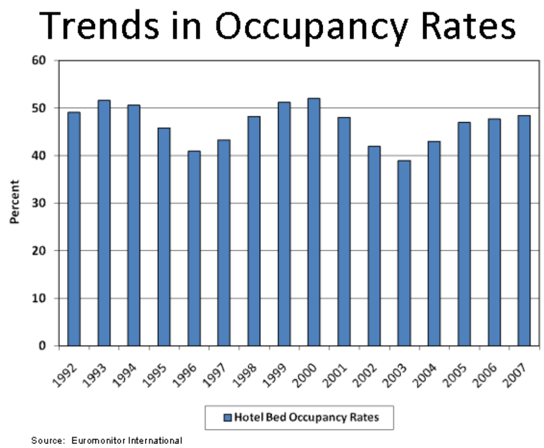




growing vitality of tourism cluster that manages to get a higher spending per tourist. This can be partly attributed to the diversification of tourisms, from merely historical and coastal to higher spending activities, including leisure sports.

Leading Indicators

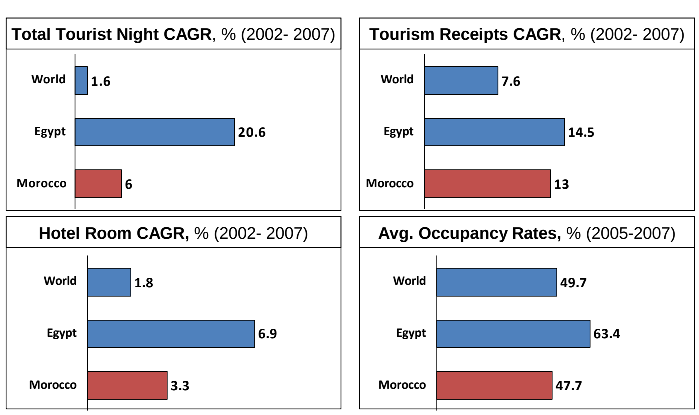
While the growth is slow, it actually increased from 2001 to 2003, and the current slowdown in performance can be attributed to the lagging effect of 9/11. The fact that investment did not completely stop during that period is a sign of confidence from investors in the fundamentals of the Moroccan tourism sector. The trends in occupancy rates, however, which grew and stabilized from 2003 to 2007, while the growth of supply of hotel rooms was increasing slowly, is also a sign that while tourists keep on coming to Morocco, their growth is slowing down. Why is Morocco starting to underperform?



Sector's relative performance

During the last five years, Morocco's tourism sector grew faster than the global tourism sector, but slower than the tourism sector of Egypt, a key substitute destination (see chart below). Indeed, Egypt's number of tourist nights grew nearly 3.5 times faster than did Morocco's over this same period. Meanwhile, Morocco's spending per tourist night grew quicker than Egypt's did over this period. It should be noted that the large relative advantage in the growth of Egypt's tourism sector compared to Morocco's can be largely explained by the significant decline in Egypt's real exchange rate over this period—while Morocco's real exchange rate was increasing. This has translated into a worry that Egypt may be becoming a "budget destination" for tourists, an undesirable outcome, which appears to be supported by the trend in spending per tourist night as described above.

MOROCCO TOURISM'S RELATIVE PERFORMANCE



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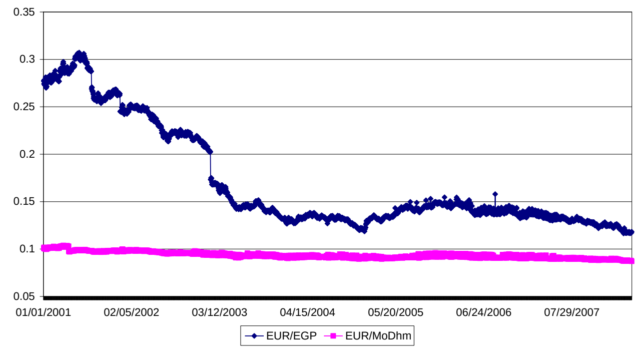
Source: Euromonitor

5. Strategic Challenges and Recommendations

Going forward, the performance of Morocco's tourism sector may be challenged by five main threats (see exhibit below for a summary of the key challenges and recommendations).

First, there is the threat that Morocco's tourism sector will be priced out of the market. In fact, this threat has already materialized: a one-night stay at the Sheraton in Casablanca, for example, costs $229 compared to $150 for the same night in Cairo, representing a 52% higher cost for same quality hotel rooms in Morocco[14]. The relatively high price points for the Moroccan sector can be explained by two main drivers. First, Morocco's real exchange rate has been appreciating, while those of key substitute destinations, namely Egypt, have been failing. Indeed, as can be seen in the chart to the right, Egypt's currency relative to the Euro has been steadily depreciating since 2001 while Morocco's currency has been stable relative to the Euro. Second, as described earlier, Morocco's labor productivity relative to wage levels is low. For example, in the textiles and garments sector, Moroccan firms are equally or more productive than Indian firms, but market wages in Morocco are two to four times higher than in India[15]. This situation likely also exists in the tourism sector.

Moroccan and Egyptian Nominal Exchange Rates Compared to the Euro, 2001-2008



source: http://www.oanda.com/convert/fxhistory

To address this strategic challenge, the government should not focus on policies directly aimed at devaluing the exchange rate since policies that artificially manipulate exchange rates are not sustainable long-term solutions. Rather, the government and private sector should pursue policies that lead to more competitive pricing through increased labor productivity. Three main policy changes will likely significantly improve labor productivity. First, the tourism sector should work closely with the government to improve the education and training of tourism sector employees. In particular, tourism education needs to be better integrated into the country's education system. In addition, the sector should expand vocational training offerings for their

[14] The night compared was May 9th, 2008. The rates quoted do not include any of the taxes or surcharges that get added onto the room rate.
[15] World Bank. "Pilot Investment Climate Survey: Moroccan Manufacturing Sector at the Turn of the Century," 2000.

employees. Second, the government needs to continue to invest in ICT and physical infrastructure in order to enhance the productivity of the tourism sector. Third, the government should let the private sector drive its share of the education initiative, so as to have very effective training, close to the New York City Economic Development Corporation model.

A second strategic challenge that the tourism sector in Morocco is facing is the need to continue developing tourism packages that will maintain and increase demand for the sector's products. In recent years, Morocco's beach tourism has found it more and more difficult to differentiate itself from other destinations. Meanwhile, there are several tourism niches that have strong potential in Morocco that have not yet been sufficiently developed, including rural, desert, cruise, and healthcare tourism. If Morocco can succeed in developing several or all of these tourism niches, it can offer truly diverse and distinctive travel packages to continue to attract tourists to visit the country. The government should focus on implementing several policies in order to help promote these alternative niches. First, the government should expand infrastructure to the rural and desert areas in order to make these tourism categories viable. Second, the government should hasten the pace in which it awards licenses for operators in these alternative niches. Third, in order to promote health care tourism—namely cosmetic surgery—the government should increase the regulation surrounding the industry. As an example, because there is so little effective control on regulation in place currently, standards and pricing vary significantly; according to a recent Euromonitor report, the same cosmetic surgery can cost twice as much for one patient compared to another patient (Euromonitor). In addition to expanding the types of tourism available in Morocco, the government should implement and enforce strict quality guidelines to ensure that the quality of the local tourism sector remains high. For example, the government needs to enforce strict sanitation guidelines and strict enforcement of international rating systems for hotels.

A third challenge is the need to expand the tourism consumer base beyond France and Europe in order to reduce the volatility of the sector to expand its growth rate. As mentioned previously, in 2007, 47% of international tourists to Morocco were from France and 79% came from five countries in Europe—namely, France, the UK, Germany, Spain, Belgium, and Italy.[16] In order to achieve increased diversity among tourists, the government should promote English language training in the education system. In addition, marketing campaigns should be focused on countries outside of Europe.

A fourth significant threat to Morocco's tourism sector is terrorism, which continues to threaten the sustainability of the sector. In 2003, for example, 41 tourists were killed in an attack in Casablanca. More recently, there were three suicide bombings in Morocco in March 2007. The government has done a great deal to reduce the threat of terrorism. In particular, the government increased pressure on fundamentalists groups beginning in 2001 after the September 11th attacks on the United States, which has resulted in a significant increase in travelers to Morocco[17]. To reduce the risk of terrorism further, the government should continue to implement and enforce strict anti-terrorism regulation.

The fifth significant threat to the tourism sector in Morocco is the potential degradation of the country's natural resources as the sector is expanded, which could threaten the long-term sustainability of the sector. Indeed, Morocco ranks 118 out of the 130 countries by the World Economic Forum's Travel and Tourism Competitiveness Index in the area of natural resource protection (World Economic Forum). Therefore, to prevent such environmental degradation, the government should increase the number of nationally protected areas in Morocco and improve the enforcement of its existing environmental regulations.

6. Conclusion

Tourism is more than ever a critical sector for Morocco, and one that depends crucially on the stability of the regime in the current political context of Morocco and the wider region. The fact that some of the reforms that we recommend are traditionally unpopular makes the task a difficult equilibrium for the Moroccan government. In particular, a sudden drop in tourism receipts could be difficult to handle. With all these considerations in mind, improving the country wide competitive environment, diversifying the types of tourism, reinforcing education in partnership with the private sector, and maintaining security are 4 crucial components of the success of this cluster.

[16] Morocco Tourism Administration: http://www.tourisme.gov.ma/francais/5-Tourisme-chiffres/Frequentation.htm
[17] Ibid.

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