The start-up in June of a large new car plant by France's PSA Group in Kenitra, north of Rabat, has underlined Morocco's unique position in the MENA region as the dominant automotive producer and exporter. Its success contrasts with the struggles other countries in the region are facing in developing their car industries. Iran's efforts, in which PSA has also been involved, have been hobbled by sanctions; Egypt's auto sector is fragmented, and focused on the domestic market; and Saudi Arabia's aspirations recently received a setback with the breakdown of talks with Toyota about setting up manufacturing operations in the kingdom.

The Kenitra plant is PSA's largest outside Europe and China. It will have the capacity to produce 200,000 cars per year, mainly smaller models such as the Peugeot 208, and is geared primarily for export. The project has benefited from tax breaks available in the Atlantic Free Zone, and the Moroccan state has taken a minority stake of just over 5% through an affiliate of its Caisse de dépôt et de gestion investment fund. Dozens of components manufacturers have set up operations in the area to feed the plant, and the project has a research and development arm whose tasks will include preparations for producing electric vehicles.

Moroccan automotive industry driving kingdom's export revenues

The recent expansion of the Moroccan car industry started with the construction of a plant outside Tangiers by Renault, which opened in 2012. Last year, Renault produced just over 400,000 cars in Morocco, of which about 320,000 came from the Tangiers plant and the remainder from the company's older, Somaca facility in Casablanca, which is to be expanded. More than 90% of the cars produced at the Tangiers plant were exported.

The automotive sector accounted for almost one quarter of Morocco's export revenue in 2018: $6.8bn out of $28.5bn, according to the Office des Changes (of this, car exports totalled $3.6bn, with the remaining revenue coming from sales of cables and harnesses).

The cars exported from the Renault factory are shipped through the nearby Tanger Med container terminal which, following its recent expansion, is bidding to become the biggest in the Mediterranean. Egypt has been seeking to achieve similar results through developing industrial zones near its Port Said East container terminal, at the northern entrance to the Suez Canal, and at Sokhna, at the southern entrance.

## Egyptian assembly plants struggle to compete with imports

The Egyptian government has been seeking to persuade Nissan to invest in new production lines at the site of the mothballed El-Nasr Automotive Manufacturing Company plant south of Cairo, a state-owned facility that previously assembled a Yugoslav version of the Fiat 128. According to reports in the Egyptian financial press, Nissan has declined to take this opportunity, but has expressed interest in investing in a large plant at Sokhna, emulating the Moroccan examples. Nissan already has a strong presence in the Egyptian vehicle assembly market, and ranks first among local car manufacturers, with a market share of one third in 2018.

However, Egypt’s car market is relatively small, despite the country’s population of almost 100m, and local assembly plants have found it increasingly hard to compete with imports, particularly those from Europe, after tariffs were phased out as part of the economic association agreement with the EU. Of the 150,000 cars sold in Egypt in 2018, almost 90,000 were imported. The government has recently highlighted deals with Mercedes Benz and BMW to set up assembly plants in Egypt, but as yet there has been no sign of any international manufacturer seriously considering a major export-oriented investment in the country on the scale of the Moroccan projects.

## Rising domestic demand adds to attractiveness of Saudi auto industry, but high labour costs a drawback

The development of an integrated car industry is one of the central industrial goals of Saudi Arabia’s Vision 2030. The advantages that the kingdom can offer include the availability of locally produced materials, such as aluminium, rubber and plastics, and the prospect of a rapid increase in domestic demand since women have been permitted to drive; among the main drawbacks is the relatively high cost of labour and the lack of local manufacturers of components. Toyota agreed in 2017 to conduct feasibility studies on setting up a plant in Saudi Arabia as part of the government’s proposed Auto Cluster. According to a report by Reuters news agency in June, Toyota has concluded that such a project would only be viable with a substantial government subsidy, and that the company was not interested in proceeding.

US withdrawal from JCPOA puts brakes on auto investments in Iran

Across the Gulf in Iran, the automotive industry is well established and, following the signature of the Joint Comprehensive Plan of Action (JCPOA) in 2016, both PSA and Renault announced plans for a substantial increase in their investments. However, since the US has withdrawn from the JCPOA, those plans are on ice, and as far as these two companies are concerned, Morocco is the prime focus of their regional investment strategy.

*David Butter is an analyst of the political economy of the MENA region, with a special interest in Egypt. He is an associate fellow in the Chatham House MENA programme and was previously the regional director for the Middle East at the Economist Intelligence Unit and editor of MEED magazine.*

 