

Dilemmas of Proximity: Motives Influencing Portuguese Firms' Internationalization to Morocco

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Abstract

This study aims to identify Portuguese firms' motives for internationalizing to Morocco. To achieve this objective, we used a mixed-method (quantitative and qualitative) approach, obtaining data from a questionnaire survey and interviewees from Portuguese enterprises involved in this internationalization process. From exploratory factor analysis (EFA), firms' reasons for entering the Moroccan market were categorized into five dimensions: (a) Price and Business Infrastructure, (b) Regional Hub and Business Environment, (c) Financial Incentives and Raw Material, (d) Skilled Labour Force and (e) Weak Competition and International Business Partners. The study shows that the factors/dimensions identified are associated both with firms' resources and capacities and with the characteristics that sometimes define the entrepreneur–manager's perceptions. In addition, our study provides inside knowledge of this topic through small and medium-sized enterprise (SME) managers' views on key aspects of their presence in Morocco, which leads to a more robust portrayal of this type of process.

Keywords

Internationalization, small and medium-sized enterprises, motives, Portugal, Morocco

Introduction

With globalization, continuous disruptive environments highlight the critical importance of firms being increasingly competitive, and through internationalization, they search for new business opportunities outside domestic markets. As a broad concept, internationalization means that firms operate externally

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through a set of flows of commodities, finished and semi-finished goods, services, different forms of capital, ideas and people, which circulate between countries (Adel et al., 2018). Firms seek internationalization for the role it plays in their medium and long-term sustainability and to overcome the limits of the internal market by exploring new opportunities abroad, but the process is not linear. Significantly, the COVID-19 pandemic in 2020–2022 and the Russian invasion of Ukraine in February 2022, global shocks that occurred during the research that led to this article, increased the need to revise some important dimensions of the internationalization process, such as those concerning the preferential location of different segments of the global value chains (GVCs), particularly those that can have a strategic and geopolitical impact (Barbieri et al., 2020; Bofelli et al., 2021). The problem had already been raised before 2020 but not with the comparable relevance of the early 2020s. Moreover, it is important to note that, even if this new context has not challenged firms' essential movement towards internationalization in order to become more competitive, factors such as geographical proximity, industrial in-shoring or near-shoring and similar expressions have gained more emphasis in analyses and policies.

In the modern globalization setting, which can be traced back to the end of the last century and, as noted, is constantly changing, firms become aware of the key importance of internationalization for their survival and the need to operate within a dense network of extremely competitive economies and markets. As argued by Conconi et al. (2016, p. 16): *'In recent decades, more and more companies have started to operate outside their domestic markets, selling their goods to foreign customers through exports or foreign direct investment (FDI)'*, a trend that was also largely corroborated by previous research (e.g., Hagiú & Emilia, 2009; Pla-Barber & Alegre, 2007). Consequently, firms' internationalization process has become one of the most prominent topics in the literature about countries seeking to improve their perspectives for economic growth and competitiveness. The increasing number of internationalized firms coming from the emerging world (Pananond, 2015) is a good example of this. Moreover, besides the case of formal economic integration, previous research has pointed out the relevance of economic relations between countries and regions with affinities other than geographic, that is, firms' ability to derive benefits from factors of proximity, such as history, language, culture and other ties (Eichengreen & Irwin, 1998; Silva, 2005), an issue that has also been highlighted by more recent global events through increasing geopolitical concerns at a world scale. Within this context, it is interesting to consider the particular motives for Portuguese firms internationalizing to neighbouring Morocco.

Up to the 1980s, the Portuguese economy remained relatively closed. Even the nearest neighbour, Spain, despite a long common border, was a secondary partner in trade, investment and other economic relations. After both countries joined the European Community (EC) in 1986, the scenario began to change quickly (Silva, 1990, p. 121), with Spain becoming Portugal's main trading partner and other reciprocal flows also growing substantially. In geographical terms, after Spain, Morocco is Portugal's closest neighbour and is presently a promising dynamic developing economy, usually included in the group of 'emerging market economies' (EME) (see, e.g., BIS, 2023, p. viii). However, despite some progress in recent years, the scale of bilateral economic relations remains rather modest. Of course, besides the obvious cultural and religious differences between the countries, Morocco is not in the present circumstances comparable to European Union (EU) member states, even when they are much more distant. The last group is integrated into the European single market, and most are also in the European Monetary Union (i.e., using the same currency), which facilitates economic and financial transactions. However, as past experiences show, due to the geographical proximity with Morocco, there is room to change the currently low level of bilateral economic relations.¹ This article aims to analyze this issue and its problems from the perspective of Portuguese firms and their managers.

There have also been policy effects, and taking into account the existing gap in mutual economic developments, according to a recent report from the Portuguese Agency for Investment and External

Trade (AICEP, The Portuguese Agency for Trade & Investment), the relevant public entity in the field, the internationalization of Portuguese firms in Morocco is characterized as a challenge, and so *'It is essential for Portuguese firms to have thorough knowledge of the system of exporting to the market, its most relevant legal aspects, the various ways of setting up activities and incentives to do so, whether for commercial or production purposes, as well as the business culture. Indeed, not knowing the market's 'modus operandi' and the often inattentive and careless way in which Portuguese firms set up business in Morocco means they face various types of difficulties, which can lead to disputes with partners and local entities dragging on for years. As for the challenges, business strategies for entering Morocco must also be based on a rationale of added value of the products or services supplied, considering that competitiveness based exclusively on the price factor is unlikely to be successful, given the strong competition from countries such as China, Turkey and others'* (2022, p. 37).

In fact, besides needing more complete empirical knowledge of the evolution of Portuguese–Moroccan economic relations and their potential, we need comprehensive, in-depth studies, particularly focusing on firms' advantages and the characteristics of their participation in the process. Therefore, based on a representative questionnaire and interviews led by the authors, this article tries to fill this gap, analyzing Portuguese firms' motives for internationalizing in Morocco. In so doing, it provides inside knowledge of this relationship through the views of the managers of Portuguese firms located in Morocco on key aspects of the reasons behind their presence in this country. Of course, they have different purposes: To increase sales, establish local production, supply regular clients, etc., but only a deeper analysis can give a robust portrayal of this bilateral process. This is a necessary step in order to design adequate policy measures to boost the economic ties in the best possible conditions for both countries, which are clearly far from their potential. Also, our research may lead to much deeper knowledge of the subject and to further studies, which can also be useful for similar cases across the world (e.g., countries with great geographical proximity but considerable differences in business regulation, customs and practices). Moreover, as far as we know, no similar in-depth study has been conducted about Portuguese–Moroccan relationships.

After this introduction, the article is structured as follows. Section 'Literature Review' reviews the literature, focusing on the determinants and motives for firms' internationalization, according to the most relevant theoretical and practical approaches, and using macro and micro views to identify the main variables to be used in the research. As there is little basic knowledge about the case studied, Section 'Contextual Setting: The Internationalization Process of Portuguese Firms and the Attractiveness of the Moroccan Economy' presents the contextual setting, briefly describing the internationalization process of Portuguese firms. It also describes the main features of the Moroccan economy's modernization and internationalization as well as the challenges and presents some stylized facts on Portuguese–Moroccan economic relations, without forgetting the regional, European and global contexts. Section 'Methodology' deals with the methodology in detail, regarding both the quantitative and qualitative approaches, which were adopted not only in designing the research but also in administering the questionnaire and interviews in the search for more robust empirical findings. In Section 'Results and Discussion', the research results are presented, examined and discussed at length, based on aggregating motives for internationalization according to factor analysis techniques, concerning the quantitative approach. The perceptions revealed by the recorded interviews with owners/managers relate to the qualitative approach, and the results are also discussed in light of the literature insights. In Section 'Contributions to Theory and Management', the contributions to theory and management resulting from the research are highlighted through integrating the different studies and findings, making them clearer and thereby facilitating future research. Finally, in Section 'Limitations, Recommendations and Future Research Agenda', we draw the main conclusions, put forward policy recommendations, and leave some indications for further research.

Literature Review

Still scarce in the first decades following World War II, the literature on the reasons for firms' internationalization has grown greatly since the late twentieth century. This reflects empirical trends in the world economy, not only as far as the growth of international trade is concerned, but also the rise of FDI and financial movements, which together have led to a rapid increase in the number of internationalized firms in different forms and circumstances. Consequently, study of the causes of firms' internationalization accounts for much of this literature, exploring the determinants and motivations of this multifaceted process. In the present section, considering the needs of our study on the Portuguese–Moroccan case, we will focus first on a macro-view, that is, a more global approach to the subject, and second on a micro-view closer to the firms themselves and their decisions.

Following his pioneering work to explain the internationalization of production on new bases, Dunning (1993) highlighted the relevance of this step for the development of global business. In his research, carried out over several decades, Dunning (1980, 1988, 2001) refined the approach, using the concept of the eclectic paradigm, which showed the ability of ownership, location and internalization as factors to explain firms' internationalization [the paradigm also being known as the ownership, location, internalization (OLI) paradigm]. This approach allowed more detailed studies on the subject and became one of the major lines of the research focusing on the determinants of firms' internationalization, particularly concerning FDI flows and multinational enterprises.² Within the so-called economic determinants, the main groups identified were: Market-seeking, resource-seeking, asset-seeking and efficiency-seeking (UNCTAD, 1998). Under this specific framework, many empirical studies have been conducted on the basis of different groups of variables representing each determinant (Yu & Walsh, 2010). However, even at this level, there were important changes. For example, as previously recommended by Dunning (1988), recognizing the increased role of the knowledge economy and innovation in these processes, Pearce (2017) drew attention to knowledge-seeking as a determinant of firms' internationalization. Moreover, beyond strict economic determinants, firms have also seriously considered policies, regulations and business facilitation procedures in the host countries at the moment of deciding to install a plant or other form of capital abroad (Bénassy-Quéré et al., 2007; UNCTAD, 1998), and governments also became increasingly involved in the process. For certain countries and firms, the influence of all these determinants can change significantly over time (see, e.g., the case of Korea, Buckley et al., 2022). Therefore, the reasons behind firms' internationalization became multiple and diverse, not only based on the specific advantages for the company resulting from some form of imperfect competition, as was initially thought (Hymer, 1976).

In the first attempts to frame the analysis of firms' internationalization, most authors mainly considered big companies, which are assumed to have a significant degree of market power. However, as research advanced, the focus of internationalization increased and expanded, and the issue of firm size was considered more carefully. Indeed, a rising number of small and medium-sized enterprises (SMEs) are increasingly engaged in international activities, and this is particularly relevant for our case study. If the size of the internationalized firms is considered, their preparation and implications are in general perceived rather differently by entrepreneurs, managers and policymakers. For example, regarding SMEs, the process requires financial, organizational and other significant expenditure, or it needs skilled human resources, and they must weigh up all these aspects seriously when committing to internationalization (Franco & Martins, 2023). There is also the risk and uncertainty of entering new markets, which can be minimized between countries with common backgrounds (e.g., in the EU, where the same or similar regulations prevail), but less so in other contexts. As a consequence, government policies and private entities, like specialized banks and financial institutions, often try to reduce these risks and costs for firms, particularly

in the case of SME and startup internationalization. In this context, it is also important to remember the contribution of the Nordic School (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975), which explained firms' internationalization as a gradual process, reflecting different levels of 'psychic distance'. Thus, against this rich theoretical backdrop, it is now necessary to make a detailed analysis of the internationalization motives more directly connected to the firm level.

According to Hansson and Hedin (2007), firms' reasons for embarking on an internationalization process are related to a saturated domestic market, gaining access to new opportunities in a given country, strategic resources and the possible existence of regional clusters. Johanson and Vahlne (1977) and Dunning and Narula (1996) argued that firms' motives may differ according to the evolution of the internationalization process and the markets they belong to. In this scenario, motivational factors determine the internationalization of firms, including that of SMEs, and they can be different according to the various stages of the process (Buckley et al., 2022; Franco & Martins, 2023; Korsakienė & Baranauskienė, 2011).

From different perspectives, previous research has identified the typology of these firms' motivations, and they can be divided into:

- *Pro-active* or *reactive* motivations (Brito & Lorga, 1999; Czinkota et al., 1999; Hollensen, 2011);
- Motivations *inside* and *outside* the firm (Bell et al., 2003; Mwititi et al., 2013; Suárez-Ortega & Álamo-Vera, 2005). In particular, internal motivations concern the set of factors in the firm's internal environment, that is, the factors, resources and competences held by the firm and which will contribute to their success in external markets.

Here, Czinkota et al. (1999) and Hollensen (2011) join pro-active motivations, for example, the firm's interest in exploiting a competitive advantage, which can be linked to a technological advantage, the existence of a differentiated product, having important information, cost reduction, benefiting from scale economies and managers' strategic interest, meaning that pro-active motivations are inherent and associated with the firm's internal means or factors. Reactive motivations occur when the firm changes and adjusts its activities to respond to pressure/threats originating in its external environment (Hollensen, 2011), meaning that reactive motivations are associated with external factors, such as competition in internal and external markets, saturation of the domestic market, the search for resources, geographical and/or cultural proximity to certain markets and/or potential customers, commercial barriers and/or restrictive customs policies, as argued by the same authors.

To pro-active and reactive motivations, Brito and Lorga (1999) added mixed motivations, the result of the mix between pro-activeness and reaction. These authors identified mixed factors, for example, geographical, cultural and linguistic proximity, reducing risk and costs, government support and more permissive legislation in terms of protectionism and the environment. Ferreira et al. (2011) claimed that the reasons for internationalization can be analyzed from the perspective of reducing the risk of depending on the domestic market, obtaining resources at more competitive prices to lower production costs and increasing sales and profits through enlargement of the market. Here too, pro-active and reactive motivations are identified.

Another study (Viana & Hortinha, 2005) summarized in three groups the reasons leading firms to internationalize, these being:

- Group 1—Strategic opportunities (e.g., easy geographical or cultural access, acquisition opportunities, emergence of new markets, government incentives);
- Group 2—Markets, customers, competitors, costs and the nature of the business (e.g., less demanding external markets, accompany clients, weaken the competition, excess capacity/

reduced sales in the internal market, scale economies and relocation of production related to the nature of the business);

- Group 3—Desire to grow (e.g., firm's brand image, the success of local partners and diversification of risk).

From another angle, Simões (1997) summarized firms' reasons for internationalizing in five items:

1. Endogenous (need for firm growth, take advantage of the production capacity available, obtain economies of scale, exploit competences, technology, diversification of risk);
2. Market characteristics (limitations of the domestic market, perception of dynamic external markets);
3. Relational (responding to competitors, accompanying clients, approached by foreign firms);
4. Access to external resources (lower production costs abroad, access to technological knowledge);
5. Government incentives (government support in the country of origin or the host country).

In a way that is relevant in the context of our study, Pananond (2015) recently synthesized the reasons for internationalization in emerging countries, as presented in Table 1, corroborating the studies mentioned above.

The reasons for internationalization are thus found to be related to internal and external factors, whose degree of importance varies according to the firm's stage of expansion, as argued by Mwiti et al. (2013) and Suárez-Ortega and Álamo-Vera (2005). Czinkota et al. (1999) and Hollensen (2011) proposed that reasons for internationalization are pro-active or reactive, while Dunning and Lundan (2008) limit motivations to economic determinants. All these motivations are found in the thinking of Pinto and Pereira (2016, p. 14), who explained that '*firms seek international markets above all to grow and survive, with the main reason being the limitations of the internal market. How firms approach international*

Table 1. Foreign Direct Investment (FDI) Motives of Lead Firms versus Suppliers.

Strategy Current	Manufacture FDI Motives	Destination	Upstream FDI Motives	Destination	Downstream FDI Motives	Destination
Supplier manufacturing	Natural resource seeking	Emerging economies	Strategic asset seeking	Advanced economies	Strategic asset seeking	Advanced economies
	Efficiency seeking				Market seeking	Emerging economies
Lead firms upstream (R&D)	Natural resource seeking	Emerging economies	Market seeking	Advanced economies	Market seeking	Emerging/advanced economies
	Efficiency seeking	Emerging/advanced economies	Efficiency seeking	Advanced economies	Strategic asset seeking	Advanced economies
Lead firms downstream (marketing)	Natural resource seeking	Emerging economies	Strategic asset seeking	Advanced economies	Market seeking	Emerging/advanced economies
	Efficiency seeking	Emerging/advanced economies			Efficiency seeking	Emerging/advanced economies

Source: Pananond (2015, p. 81).

markets depends on the business model, the product and how they operate. Together with the reasons and factors influencing internationalization, the business model, managers' profile and the networks the firm may belong to can be the main aspects stimulating the decision to embark on and strengthen the internationalization process'.

Contextual Setting: The Internationalization Process of Portuguese Firms and the Attractiveness of the Moroccan Economy

The internationalization of Portuguese firms to Morocco takes place in a specific context. Both countries are becoming more open and searching for sustainable internationalization to promote more growth and competitiveness for their economies. Despite the geographical proximity, the level of their reciprocal relations is undoubtedly low and is far from the potential. So, in the context of this article and its objectives, it is necessary to take a closer look at this relationship to which the analyzed firms belong. This will help in understanding the later sections.

The Internationalization of Portuguese Firms: A Brief Overview

The internationalization of Portuguese firms is still in its initial stages. Indeed, up to the 1990s, as far as FDI flows are concerned, Portugal was basically a host country, and a stream of FDI outflows only became statistically significant in the last years of that decade. Moreover, in the 12 years following the Revolution of April 1974, among other problems like inflation, the country revealed serious fragilities in its external balance, which led twice to IMF assistance programmes (Silva, 2021). In these circumstances, it was not possible to develop a sustained, well-founded strategy for firms' internationalization, and even from the trade point of view, short-term considerations like the insufficient level of foreign reserves were the most determinant, leading to long periods of currency devaluation. With EC membership in 1986, the macroeconomic fundamentals improved, and in the late 1990s, the internationalization of Portuguese firms began through outward FDI, although still at a modest scale (Silva, 2006).³ As it was difficult to penetrate the more competitive, mature European markets or other developed contexts, at that very initial stage of the FDI outward process, firms focused mainly on Brazil and other Portuguese-speaking countries, benefiting from the linguistic and cultural affinities (Rauch, 2001; Silva, 2005), showing that the so-called non-economic determinants can also play a role in the growth of these international flows. Later, in 2011–2014, and just after the Great Recession of 2008–2009, under a new IMF/ECB/European Commission assistance programme (Silva, 2021), started in 2011, due to major restrictions in the domestic market, Portuguese firms were pushed to internationalize even more at different levels and in different geographical areas (Brás-dos-Santos & Silva, 2020). Despite these emerging trends, Portuguese firms' degree of involvement in the internationalization process remains relatively low by European standards, is not long-lasting, and mainly follows a trade path. Nevertheless, in the 2020s, thousands of Portuguese firms have become internationalized to some extent in different parts of the globe.

The institutional perspective must also be considered because of policy purposes. In the first decade of the twenty-first century, the positive externalities derived from promoting international activities were recognized. A more comprehensive economic diplomacy was introduced (Silva, 2008), with coherent government policies and more specialized staff. AICEP played a relevant role in this shift, which allowed closer monitoring of foreign trade and investment processes, seeking deeper, more advantageous economic relationships with the other partners. As foreign economic relations were highly concentrated on the EU, special attention to the world outside was clear in this policy. Subsequently, from the 2010s up to the early

2020s, the Portuguese economy became much more open in the most important domains (trade and FDI), in sharp contrast with the stagnation characterizing the previous decades (Silva, 2008, 2019). The number of studies on Portuguese firms' internationalization, often with the participation of foreign capital, was increased, focusing, for example, on the pharmaceutical and health sectors (Magrinho et al., 2017; Vieira et al., 2021). With all these changes, internationalization became more relevant as a current policy matter, as demonstrated by the attention paid to the Moroccan case, as already referred to in the introduction.

Strengths and Challenges of the Moroccan Economy from the Perspective of its Openness and Internationalization

Morocco benefits from a business-friendly environment with social, political and economic stability vis-à-vis other countries in the Maghreb and West Africa. The economic reforms over the last 20 years have been based on diversifying and strengthening the economy through sectoral strategies such as 'Morocco Green Plan (2008–2020)' in the agricultural sector and the Industrial Acceleration Plan (since 2014). In this context, the Moroccan government promoted a policy to diversify and industrialize the economy, where some sectors became significant examples. As regards the integration in GVCs, according to Amachraa and Quelin (2022), this is particularly the case of the following industries: Phosphate, automotive, textiles and agri-business. Additionally, Morocco increased its openness with more than 50 free trade agreements, giving access to 1.3 billion consumers, and this has been crucial in changing the country's economic structure.

However, all the efforts to foster economic development based on more advanced structures were not enough to overcome some of the huge challenges Morocco still faces, some of which must be mentioned. According to a report on the informal sector in the Middle East and North Africa (MENA) region from the World Bank (2023), 77.3% of Morocco's active population has no social coverage or insurance, this being a major obstacle to the country's economic and social development. Moreover, the Moroccan economy shows significant fluctuations in growth because of excessive dependence on agriculture. In 2021, this sector accounted for 23% of the country's exports and 20% of gross domestic product (GDP), employing around 40% of the active population (Sraïri, 2021).

As regards its position in an international setting, and according to the Economic Complexity Index (OEC, 2022), in 2021 Morocco was the 58th economy in the global ranking in terms of GDP, the 61st in total exports, the 54th in total imports, the 139th economy in terms of GDP *per capita* and the world's biggest exporter of phosphoric acid, calcium phosphates and legumes, which shows that, despite the relatively low GDP *per capita*, the country has potential as a natural resource-economy (including renewable energy, such as solar power). In addition, according to Morocco Now (2023), it is the most competitive country in North Africa and the second most attractive investment destination in Africa.

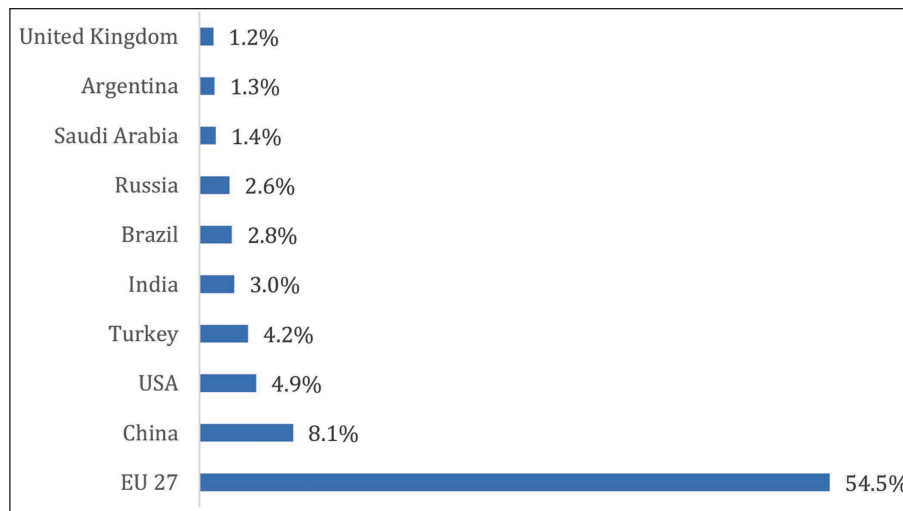
It is now necessary to take a more detailed look at the Moroccan external sector, particularly regarding trade and FDI inflows. To begin with, it must be pointed out that the Moroccan external sector is significantly concentrated on the EU member states (European Commission, 2023). In 2022, the total trade in goods between the EU and Morocco amounted to €53.3 billion (Table 2), Morocco being the EU's 21st biggest trade partner, representing 1% of the EU's total trade in goods with the world.⁴ Also, the EU is Morocco's largest trading partner, accounting for 49% of its goods trade. This means that 56% of Morocco's exports went to the EU (for a comparison with other partners in 2021, see Figure 1), and 45% of Morocco's imports came from the EU. From Table 2, it is worth noting that, between 2012 and 2022, Moroccan exports to the EU (imports of EU in the table) have multiplied by 2.48, and Moroccan imports from the EU have multiplied by 1.95. Although the balance favours the EU, for Morocco, the

Table 2. European Union (EU), Trade with Morocco (2017–2022), in Million Euros.

Period	Imports			Exports			Balance	Total Trade
	Value Mio €	% Growth	% Extra-UE	Value Mio €	% Growth	% Extra-UE	Value Mio €	Value Mio €
2012	8,777		0.5	16,205		0.9	7,428	24,982
2013	9,453	7.7	0.6	16,784	3.6	0.9	7,331	26,237
2014	10,341	9.4	0.6	17,516	4.4	1.0	7,175	27,857
2015	11,673	12.9	0.7	17,493	−0.1	0.9	5,820	29,165
2016	12,624	8.2	0.8	19,926	13.9	1.1	7,302	32,549
2017	14,356	13.7	0.8	21,484	7.8	1.1	7,129	35,840
2018	15,369	7.1	0.8	22,481	4.6	1.1	7,111	37,850
2019	16,322	6.2	0.8	23,288	3.6	1.1	6,966	39,610
2020	15,139	−7.3	0.9	20,032	−14.0	1.0	4,894	35,171
2021	17,996	18.9	0.8	25,122	25.4	1.2	7,126	43,118
2022	21,717	20.7	0.7	31,621	25.9	1.2	9,904	53,339

Source: Eurostat.

Note: % Growth: Relative variation between current and previous period; % Extra-UE: Imports/exports as % all EU partners, that is, excluding trade between EU Member States.

**Figure 1.** Market Share of Morocco Top Trading Countries, 2021.

Source: European Commission (2022).

deficit is being reduced as a percentage of the total trade in goods (from 29.7% to 18.5% between those years). Moreover, in the same period, except for 2020, Moroccan exports to the EU showed significant annual growth rates, and in 4 years, they were well above 10%.

Table 3. Top Investing Countries in Morocco (Million Dirhams).

Ranking	Morocco FDI	2016	2017	2018	2019	2020*	1st Half of 2021*
1st	France	11,053	7,740	7,700	12,303	9,543	5,652
2nd	UAE	3,604	3,579	3,943	2,646	2,324	1,743
3rd	Luxembourg	834	1,716	2,245	1,826	1,176	1,321
4th	Netherlands	2,081	1,686	1,057	935	960	1,034
5th	Spain	1,174	2,032	2,177	1,530	1,864	812
6th	Great Britain	2,596	2,084	2,535	1,613	1,987	700
7th	United States	2,339	2,696	2,422	1,050	650	522
24th	Portugal	119	251	110	53	59	34

Source: Office des Changes (2021).

Notes: * Provisional data. FDI, foreign direct investment.

As for FDI inflows, Table 3 shows that during the period 2016–2021, four EU member states were among the first five investors in Morocco (France and Spain, but also two springboards for international capital, Luxembourg and the Netherlands). However, as an EME, Morocco also attracts other major countries, and in 2022, the United States was the top origin of investment inflows, followed by France, Great Britain, UAE and the Netherlands. Despite the irregularity, all these figures (as well those of trade in goods and services, and in the context of the balance of payments, emigrants' remittances and other flows) clearly show a trend that demonstrates the relevance of gravity factors (Cechella et al., 2009) in Moroccan external relations determined by the size of the EU's GDP and its geographical proximity.

The composition of Moroccan external trade is clearly that of a developing country trying to derive benefits from its specialization advantages (natural resources, relatively abundant labour force) and to promote economic growth (considering the potential of the domestic market with a dynamic demography). In 2022, its main imports were energy products (AED 153,520 million), semi-products (AED 169,666 million), food products (AED 86,727 million), equipment goods (AED 148,936 million), raw products (AED 44,257 million), final consumer products (AED 134,354 million) and industrial gold (AED 268 million), whilst Morocco's main exports were phosphates and derivatives (AED 115,483 million), automobiles and their parts (AED 11,289 million), agriculture and foodstuffs (AED 81,236 million), textiles and leather (AED 43,960 million) and aeronautics (AED 21,272 million).

As regards FDI inflows, Morocco is the 2nd most attractive African destination, above South Africa and after Egypt (RMB Investments Report, 2021). In the context of the combat against the effects of the COVID-19 pandemic, a special fund was established in 2020, representing 2.7% of the country's GDP, where two-thirds of the fund was generated by the private sector and one-third by the government, which was a decisive measure to maintain Morocco's attractiveness in terms of FDI. The impact of COVID-19 on FDI to Morocco has been erased 2 years after the pandemic appeared, with 2021 more than offsetting the decline in 2020. In fact, the net flow of FDI into Morocco recorded an increase of 20.5% in 2021 (Office des Changes, 2021). The two main sectors of FDI in the Moroccan market are manufacturing and real estate, representing 34.1% and 20.9% respectively, followed by commerce (7.7%), tourism (7.2%) and banking (6.3%), while agriculture, energy and mines and transport represent 4.8%, 4.2% and 3.4% respectively (Office des Changes, 2021).

The State of Portuguese–Moroccan Economic Relations

It is also necessary to take a brief look at Moroccan–Portuguese economic relations, which, although weak, have developed over time within a good and stable political and institutional environment. It is important to point out that Morocco was the destination of exports from around 1,400 Portuguese companies in 2021. Regarding trade between the countries (2016–2021), Figure 2 shows a steady evolution, except for 2020, due to the significant drop in Portuguese exports of 12.5%, associated with the COVID-19 pandemic, according to Instituto Nacional de Estatística (INE), and referred to by AICEP, 2022 (Banco de Portugal, 2022). However, in 2021, Portuguese exports to Morocco recorded an increase of 38.7% (approximately €242 million). The main categories of products exported from Portugal to Morocco in 2021, compared to 2020, were basic metals (+57.9%), mineral fuels (+2.9%), machinery and equipment (+26.5%), vehicles and other transport materials (+89.4%), plastics and rubber (+36.5%) and agricultural products (+158.5%), while the five main categories of products imported by Portugal from Morocco in the same period were vehicles and other transportation materials (+86.2%), chemical products (+166.5%), clothing (-0.1%), machinery and transportation equipment (+29.6%) and minerals and ores (+76.8%). In 2021, Portuguese exports to Morocco represented around 1.4% of total Portuguese exports. Moreover, in the years 2016–2021, the trade balance (goods) always remained favourable to Portugal.

The analysis in terms of FDI stock gives an idea of Portuguese investment in Morocco (Table 4), although Portuguese firms often use foreign platforms to invest abroad.⁵ In fact, Portuguese direct investment (PDI) in Morocco represented 0.5% of total PDI abroad in December 2022. The total of €276.0 million registered in 2022 represents +7.1% compared to 2019. It is important to underline that the use of the directional principle reflects the direction or influence of Portugal’s direct investment abroad and FDI in Portugal. On the other hand, according to the Bank of Portugal, and concerning recent years, we do not have precise data about Morocco’s FDI in Portugal (or perhaps it comes indirectly through third countries, which only a more refined research would confirm. For an updated view on this subject, see Kalotay, 2023).

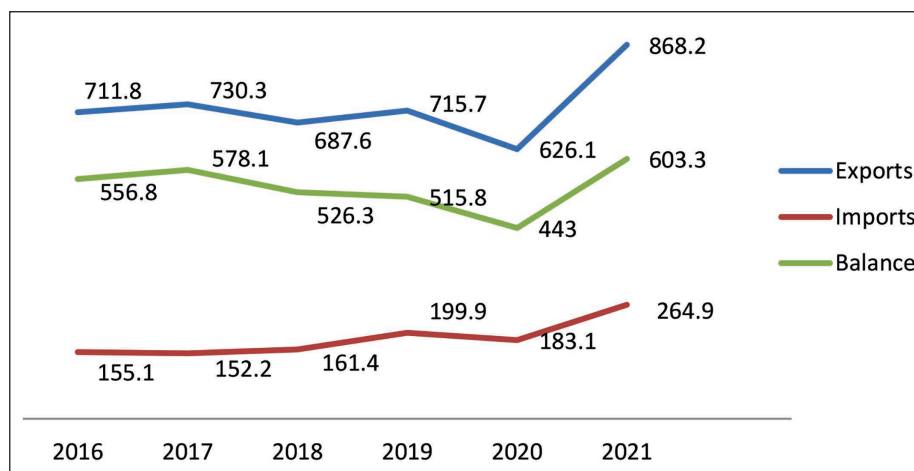


Figure 2. Portugal’s Balance of Trade with Morocco (2016–2021) (Million Euros).

Source: INE, referred by AICEP (2022, p. 26).

Table 4. Portuguese Direct Investment Stock between Portugal and Morocco—Directional Principle.

	2018 Dec	2019 Dec	2020 Dec	2021 Dec	2022 Dec	Var % 22/18 ^a	2022 Sept	2023 Sept	Var % 23/22 ^b
PDI	233.3	257.7	236.9	270.3	276.0	4.7	269.3	283.9	5.4
% Tot Portugal	0.5	0.5	0.4	0.5	0.5	–	0.4	0.4	–
FDI	2.5	17.2	27.5	48.0	55.3	185.1	53.7	55.6	3.4
% Tot Portugal	0.0	0.0	0.0	0.0	0.0	–	0.0	0.0	–
Balance	230.8	240.5	209.3	222.3	220.7	–	215.6	228.3	–

Source: Bank of Portugal (2022).

Portugal appears only in the 24th position as an investor (although indirect FDI flows are possible through ‘tax havens’) in the first half of 2021. However, according to the data provided by the Bank of Portugal, it rose eight positions between September 2020 and September 2021. Concerning Portuguese investment in Morocco, a survey led by AICEP and The Portugal–Morocco Chamber of Commerce, Industry and Services (CCISPM), between April and May 2020, traced a general picture of this flow. The results showed that investment is very diversified, involving about 180 companies and covering 21 sectors of activity. The top sectors are textiles (14.9%), services and distribution (9.9%), equipment and construction equipment, industrial equipment and products (both with 7.9%), and footwear and accessories (6.9%). The automotive, energy and environment, and construction and public works sectors each represent 5.9%, with 5% for both hospitality and tourism, and other sectors, 4% for agriculture and fisheries, as well as for pharmaceuticals. Information and communication technologies (ICT) and forest products both represent 3.0%, followed by lighting and decoration, metalworking, logistics, and the chemical and petrochemical sectors, each with 2.0%. Food and beverages, consultancy and import/export are the least represented sectors, with only 1% each. Most of the companies that invested in Morocco are mainly Portuguese capital funds, and the sectors with the highest incidence of mixed capital funds are agriculture and fisheries, metalworking, industrial equipment, equipment and construction equipment, and services and distribution.

Methodology

Sample and Data Collection

It is difficult to define the universe of Portuguese firms installed in Morocco, since in this country, national statistics through the Office des Changes are not updated and are usually published very late. Consequently, data about Portuguese firms likely to be, or having been, involved in an internationalization process to Morocco were collected. First, from a study conducted by AICEP, in 2021, on the characterization of PDI in Morocco. According to this study, PDI in Morocco consisted of 180 firms, and it was very diversified, with textiles representing 15%, services and distribution 10%, fashion and footwear 10%, metallurgy 16%, agrifood 8%, automotive 6%, environment 8% and pharmaceuticals 4%.

Then, additional data were collected from other secondary sources to be able to compare or complement the information provided by the aforementioned study: (a) Office des Changes database, namely the number of Portuguese firms registered as foreign investors in the country in 2018 (latest published data); and (b) information provided by the Chamber of Commerce, Industry and Services Portugal–Morocco and the Chamber of Commerce and Industry Luso-Marroquina. These organizations have up-to-date

information about their members, given that one of their missions is precisely to attract and support PDI in Morocco. Based on all these sources, it was possible to carry out a telephone poll and confirm the existence and activity of the firms in the market. The existence of 150 active firms in Morocco was confirmed as well as their diversity: Services (41), construction materials (25), textiles (23), fashion (including footwear, 17), environment (13), automotive (12), interior design and deco (6), agrifood (4), metallurgy (4), communications (3) and pharmaceuticals (2).

Considering the possibility of strict use of sampling techniques, a convenience sample was chosen (Patton, 1991; Yin, 2015). With this method, firms were selected intentionally and not randomly as in the probabilistic sampling process.

As regards data collection, a questionnaire was drawn up based on previous studies focusing on motives for firms' internationalization process, and the individual characteristics of the surveyed firms and their respective owner-managers were also considered (Brito & Lorga, 1999; Dunning 1980, 1988, 2001; Hollensen, 2011). The variables on internationalization motives were measured using a five-point Likert scale ('1'—no importance to '5'—maximum importance).

From the initial sample, a pre-test was performed on 10 firms to verify the internal consistency of the questionnaire and to analyze the items before the final collection. These respondents were not included in the final questionnaire. After performing some methodological procedures, 140 questionnaires were sent by mail on 24th November 2020, which was repeated on 25th January and 25th March 2021 to ensure a representative sample of the population under analysis. In mid-April of the same year, a validated response rate of 43.6% was obtained, corresponding to 61 questionnaires.

The firms in the final sample ($n = 61$) were concentrated in several districts on the Portuguese coast, particularly Lisbon and Aveiro. Although the sample includes firms belonging to all sub-sections of manufacturing industry, the most representative sub-sections were construction (13.1%), automotive (13.1%) and textile (8.2%). Only two companies started their activities in Morocco in 1972; the majority of them began after 2010. With regard to the weight of firms' activity in Morocco, 57.3% have less than 15.0%. A significant activity of these firms in Morocco is import/export (19.7%). Firms are predominantly SMEs,⁶ but there are also some large firms (31.2%). They are led fundamentally by the manager/administrator, the majority of whom have a university degree. These firms have the legal status of corporation (35 firms) and S corporation (16 firms).

Given that quantitative and qualitative approaches complement each other and provide research with high external and internal validity, the statistical analysis of motives influencing firms' internationalization was combined with exploratory semi-structured interviews with managers of Portuguese companies installed in Morocco. The interviews lasted between 60 and 90 minutes and were recorded, transcribed and subject to content analysis (Ameijde et al., 2009; Patton, 1991; Weber, 1985). They were essential for understanding the points of view of alliance managers on the ground with regard to their internationalization process. This research, therefore, adopted the mixed research method by triangulating data.

This qualitative study was conducted based on interviews with 12 of the most relevant Portuguese companies installed in Morocco, which were from different sectors of activity and of different sizes (see Table 5). The interviews were conducted face-to-face on the premises of the companies themselves and recorded, with the interviewees' consent, via mobile phone.

The objective of these studies was to analyze and discuss the motives influencing Portuguese companies to invest in Morocco, as well as to identify similarities, differences or patterns in light of the results from the quantitative and qualitative studies. Moreover, the weight of SMEs in the responses to the quantitative approach as well as in the interviews of the qualitative approach impacts on the analysis of results in the following sections.

Table 5. Firms' Characterization and Interviewees.

Firms/Interviewee	Sector	Year of Creation	No. of Employees
A/11	Metalworking	2001	70
B/12	Shopping center management	2010	15
C/13	Automotive	2009	90
D/14	Plastic injection mold manufacturers	2011	21
E/15	Cork processing	2006	11
F/16	Architecture and interior design	2012	6
G/17	Screw manufacturer	2014	9
H/18	Water treatment	2009	11
I/19	Fisheries management	2018	6
J/110	Precision agriculture	2013	4
K/111	Construction	2013	15
L/112	Communications	2000	350

Underpinnings of the Data Analysis

It is now necessary to refer to the statistical and other methods that were applied to the data collected from the questionnaire and the interviews in order to achieve the research objectives.

First, a descriptive statistical analysis provided basic information on the motives influencing firms' internationalization process. Second, the authors conducted an exploratory factor analysis (EFA), a multivariate statistical analysis, to reduce the number of variables obtained (Watkins, 2018) and identify the common factors explaining the co-variation observed among the set of measured variables related to these motives.

Third, a principal components analysis (PCA) was performed to capture most of the information in the initial data set by identifying the principal components that maximize the variance between observations (Hair et al., 2020). The results give us the proportion of variance explained by each of the principal factors, as well as the cumulative sum of explained variance. For example, the first factor identified explains the highest percentage of the total sample variance. The second factor corresponds to the second highest percentage of the total variance and so on successively. No correlation was found between the factors.

Fourth, an orthogonal varimax rotation was used to clarify the relationship among factors, as well as to maximize the variance shared among variables. The results confirm some similarities with those obtained through the quartimax (simplify the variables) and equamax (simplify the factors) methods. Fifth, a Kaiser–Meyer–Olkin (KMO) test was performed to measure how suited the data were for the factor analysis and to measure sampling adequacy for each variable in the research model. The Bartlett sphericity test and Cronbach's alpha (Bonett & Wright, 2015) were also considered in order to measure the level of consistency between variables.

Thus, different statistical methods were applied to the data obtained in order to fulfil the research objectives and gain more consistent knowledge of the bilateral process from the firms' internationalization point of view.

Regarding the qualitative study, the interviews were transcribed in full, and the script was constructed based on the literature. With that purpose in mind, content analysis was used for the interviews and based on a cross-sectional matrix that classified all responses simultaneously for each of the topics under discussion. This research method is commonly used in qualitative studies (Kungäs, 2020).

Results and Discussion

This section presents and discusses the results of the quantitative and qualitative studies, identifying the main motives influencing Portuguese firms' internationalization to Morocco.

Regarding the results of the descriptive statistics, we can highlight that only four of the 13 motives/variables presented in the questionnaire have an average above three, being mostly referred to as 'important' or 'very important' (see Table 6). The frequency analysis results show that the most important motives for Portuguese firms' internationalization to Morocco are 'geographical proximity' (mean = 4.16), 'local market potential' (mean = 3.87), 'business environment' (mean = 3.26) and 'competitive price' (mean = 3.08). These results are in line with the arguments of Brito and Lorga (1999), Czinkota et al. (1999) and Hollensen (2011), who classify such motivations as 'pro-active/reactive motivations'. Bell

Table 6. Motives Influencing Firms' Internationalization to Morocco: Factor Analysis.

Motives	Mean	Standard Deviation	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5
Competitive labour costs			0.827				
Competitive price	3.08	1.069	0.788				
Existence of zones of industrial acceleration (ZAI)	2.31	1.246	0.570				
Geographical proximity	4.16	0.840	0.451				
Local market potential	3.87	1.204		0.7885			
Platform for other regional markets	2.74	1.290		0.723			
Business environment	3.26	0.835		0.638			
Moroccan public incentives	1.59	0.844			0.756		
International funding/Euro-pean Union (EU)	1.48	0.849			0.724		
Cost and availability of raw material or other productive resources	2.13	1.231			0.653		
Available technical and scientific knowledge	2.23	1.131				0.835	
Skilled labour	2.39	0.988				0.727	
Weak competition	2.02	1.408					0.732
Presence of international business partners with whom the firm has special relationships	2.64	1.278					0.678
<i>Cronbach's alpha</i>			0.658	0.662	0.675	0.701	0.643
<i>Eigenvalue</i>			2.170	2.036	2.023	1.822	1.585
<i>% Variance</i>			15,500	14,543	14,446	13,012	11,324
<i>% Cumulative</i>			15,500	30,043	44,490	57,502	68,826

Note: N = 61; rotating procedure: Varimax; only values greater than 0.45 are displayed; measurement of sampling adequacy: Kaiser–Meyer–Olkin (KMO) = 0.618; Bartlett's test of sphericity = 275.511; g.l. = 91; statistical significance $\alpha = 0.000$.

et al. (2003), Mwiti et al. (2013) and Suárez-Ortega and Álamo-Vera (2005) refer to these motivations as ‘internal and external motivations’. We can, therefore, say that the motives identified by the firms surveyed confirm the literature, considering the reactive motivations associated with external factors.

Seeking to reduce the number of motives/variables to be taken into consideration when opting for internationalization, the factor analysis technique was applied. After carrying out this analysis and applying the criterion of an eigenvalue above one, five factors were retained, which, as a whole, explain 68.83% of the total variance of the variables (see Table 6). The results of the study clearly show the existence of five main factors underlying Portuguese firms’ internationalization to Morocco. A brief description and designation of each factor is given as follows. In order to reinforce the findings underlying each factor, we also consider the interviewees’ contributions.

Price and Business Infrastructure (Factor 1)

This factor includes motives such as competitive labour costs, competitive price, existence of industrial acceleration zones and geographical proximity. All these motives have been identified by several authors. For example, Jabeen et al. (2021), Al-Maskari et al. (2019), Banwo et al. (2017) and Bellak et al. (2008) postulate that labour costs and infrastructure are among the main locational determinants of FDI. In turn, Bénassy-Quérré et al. (2007) and Blonigen and Piger (2014), referred to by Reurink and Garcia-Bernardo (2021), point out cultural and geographical distance as important motives in the FDI decision-making process. The comments of several managers interviewed underline some of these topics/motives:

- ‘...the management of our group thought it best to leave our comfort zone and internationalize the company. We chose Morocco because it was a country that was developing, the first industrial zones had been created ... So, there was a need for construction...’ (I1);
- ‘... the geographical proximity and the fact that at the time there were two flights a day... and the proximity by car too’ (I1); ‘It’s one thing to make a 6-hour journey, with stopovers, it’s another thing to come here from Lisbon in an hour’ (I2); ‘The proximity, of course, because our company is an SME.... Proximity had an impact on the managing partner who came here because of his personal life, he had just become a father, so he couldn’t go to a very distant country’ (I8);
- ‘I think that geographical proximity may have been the reason, and perhaps cheap labor’ (I3); ‘Labor seems cheap, but it isn’t because it isn’t productive...’ (I6); ‘Geographical proximity would be even more advantageous if we had the new link...’ (I4);
- ‘One of the advantages we have is the proximity to Portugal’ (I7); ‘The proximity to Portugal, the inherent costs - transport, merchandise/operatives’ (I10);
- ‘It’s not that labor is much cheaper. On the one hand it is, but on the other, if you get to the end of the year and do the maths, it’s not that much cheaper than in Portugal...’ (I5);
- ‘If you have a quality product and a competitive price, the larger the commercial network, the greater the benefit in this case’; ‘...everything is based on the price of the raw material...’ (I7);
- ‘Moroccans here are very price-conscious’ (I1); ‘The price and delivery factors are important, because we get faster deliveries at a lower price’ (I9);
- ‘We win here because wages are attractive. The cost of labor is extremely cheap in relation to what is charged. I do normal practice as if I were in Europe, but the pay is different, that’s why it’s attractive’ (I11);
- ‘We pay slightly below average here, but I try to have a balance between the various employees’ (I12).

This empirical evidence is in line with previously mentioned studies that highlight the good relations between Morocco and Portugal, and their contribution to the existence of 1,400 Portuguese companies exporting to Morocco. Moreover, the existence of regional clusters may significantly contribute to firms' internationalization. It is not surprising that some Portuguese firms in the automobile industry, which is one of the most important in the country, are present in the process, as Morocco, taking advantage of being near the European periphery, has developed this sector considerably in recent years (as other countries, inside or outside the EU but close to its periphery, had done before; Pavlinek, 2021). These considerations lead to discussing the following category of motives (Hansson & Hedin, 2007).

Regional Hub and Business Environment (Factor 2)

This category shows the motives related to the Moroccan market's potential and its business environment. According to Yu and Walsh (2010), market size, political–institutional factors, such as political (in) stability (Globerman & Shapiro, 2002), openness to foreign trade, and capital flows (Blonigen & Piger, 2014) are all relevant motives to invest abroad. Viana and Hortinha (2005) also stress that emergent economies are today potential markets for foreign firms, considering that their motives for internationalization are linked to markets, customers, competitors, costs and the very nature of the business. In the specific case of Morocco, it is important to point out that the country rose 75 positions in the 'Doing Business 2020 ranking' in just 10 years, between 2010 and 2020, out of 190 countries (AICEP, 2022). This reveals the country's effort to attract foreign investors. The existence of sectoral regional clusters (Hansson & Hedin, 2007) and a culture of stability promoted by the kingdom, with emphasis on the regional context, can also explain the perceived importance of Morocco as a gateway business platform for national and foreign firms concerning its African neighbours. RMB (2021) also stresses the political stability of Morocco as a crucial external motivation for foreign investors. In these circumstances, Portuguese investment is very diversified, involving 180 companies in 21 sectors of activity (AICEP, 2020). Comments about the relevance of this factor were made by some respondents:

- 'In 2019 the sales division was created to increase the portfolio' (I3);
- '...being an Arab country, it is stable. There is stability and proximity to Europe, a lot of European influence, especially Tangier'; 'and also the fact that it has a free zone' (I3);
- 'The market is very good; we work with loyal customers who are also market leaders. We try to position ourselves in a slightly higher-range market.'; 'We try to retain our customers and we have an interesting market share' (I4);
- 'I saw that this was still very virgin and I thought that Morocco had to be explored' (I5);
- 'We have visibility in the market. We only work with premium clients' (I6);
- 'Our main objective is to have a vision of the automotive sector, because there are so many companies in Morocco' (I7);
- 'The Moroccan market is attractive to us because we are manufacturers and, from the outset, this gives us negotiating power in terms of what exists here in Morocco' (I7);
- 'We are already seeing that Morocco serves as a platform for us to internationalize from Morocco. We're already here just for the local market, but we're taking advantage of the internationalization of the companies here, particularly the big manufacturers who also feel that the market is already under a lot of pressure on margins....'; 'Morocco is an extremely strategic market' (I8).

In sum, there is a perception that firms will only take advantage of this attractive business environment if financial means and other resources are available, which leads us to the next set of motives for the firms surveyed.

Financial Incentives and Raw Material (Factor 3)

This category includes motives associated with financial resources and other incentives, the cost and availability of raw materials and other production resources. Haftel (2010) stresses that some of the factors behind firms' decisions on where to install their foreign investments are related to the specificities of countries' tax regimes, such as the availability of tax and investment agreements. Mooij et al. (2003) refer to statutory and effective corporate income tax rates as relevant public incentives for firms. Regarding EU funding, Brás-dos-Santos and Silva (2020) explain that Portuguese firms received a new impetus for their internationalization process through support from the European Commission. In this perspective, Simões (1997) also says that access to government funds is a driver for investment in foreign economies. Brito and Lorga (1999) highlighted that government support is a mix of proactivity and reactivity. About these aspects, some managers mentioned that:

- 'I found a Moroccan factory that was closed in Bouznika that had all the material and machines to work with' (I5);
- 'We set up a showroom, I taught the guys, we advertised and we started doing jobs. People started asking and that was that!' (I5);
- 'New jobs, architectural projects are a challenge that I like to have in the area of wood and finishes, so there is an upgrading of products and processes here' (I11).

In this scenario, the Portuguese firms surveyed and the interviewees have expanded their business niche to Morocco to escape domestic market saturation, reduce the risk and costs and boost their competitiveness in the market (Ferreira et al., 2011). Both Vernon (1966) and Walkenhorst (2004) introduce 'resource' and 'efficiency seeking' motives, covering such issues as cheaper resources (e.g., labour and raw materials). Guillén and García-Canal (2009) summarize the primary motivations for companies' internationalization, focusing on the 'backward linkage into raw materials' and the 'forward linkage into foreign markets'. For these authors, motivations represent '*the desire of some companies to create backward linkages into sources of raw materials or forward linkages into foreign markets in order to reduce uncertainty and opportunism in the relationship between the firm and the supplier of the raw material, or between the firm and the distributor or agent in the foreign market*' (pp. 28–29).

Skilled Labour Force (Factor 4)

Another strand of literature focuses on the FDI phenomenon concerning the importance of a skilled labour force and the availability of scientific and technical knowledge in target markets (while commodities generally have an international price, on the contrary, wages and salaries, including those for skilled labour, depend much more on each national context, showing a real difference). This category (factor) is essential in firms' internationalization processes (Blonigen & Piger, 2014), especially in a context where the soft skills of the future are discussed. A skilled labour force is part of the internal motivations (internal business environment) included in the set of factors and skills existing in firms that will drive success in their internationalization process (Mwiti et al., 2013; Suárez-Ortega & Álamo-Vera, 2005). Through the interviewees, it was observed that:

- 'If it's in terms of operators, we're the ones who provide training, but many of them come here with some experience'; 'For half a dozen pennies they go from one company to another'; 'In the case of managers with a certain level of expertise, it's not always easy to find people' (I3); 'It's difficult to find people with knowledge and experience, now that there are a lot of trained people looking, there are!' (I3);

- ‘We mustn’t forget that the workforce here is specialized and there aren’t that many.... Companies are left in the hands of two or three... it’s a risk for them’ (I4);
- ‘There’s a lot of labor here. This is what we lack in Portugal’ (I8);
- ‘What’s positive is that there’s no qualified labor force in Portugal at the moment....’ (I9).

Dunning (1988), Rugman (2009) and Pearce (2017) discussed the motivation of ‘knowledge seeking’, considering issues such as learning best practices and efforts to gain market knowledge. In this line of reasoning, the actions to develop social and business networks, and the applicability of unique home country capabilities are stressed by Fey et al. (2016). From another perspective, although complementary and interlinked, Dunning and Lundan (2008) and Simões (1997) explain why access to external resources and long-term advantages by transferring knowledge (Meyer, 2015) are key strategic resources when firms make an investment decision outside national boundaries.

Weak Competition and International Business Partners (Factor 5)

This is another factor that has been examined in the context of firms’ internationalization process. Weak competition and the existence of international business partners in Morocco with whom firms have special relationships seem to be a clear economic rationale for Portuguese firms investing in this market. For example, Portugal exports to Morocco mostly goods considered essential for the Moroccan economy, related to the following economic activities: Agriculture and fisheries, metalworking, industrial equipment, construction equipment, as well as services and distribution (AICEP, 2022). In addition, as already mentioned, Moroccan business structure is made up of SMEs, despite occupying the 24th position as an exporting country. This means that Portuguese firms do not face huge competition from their local peers and can even achieve economies of scale with them (ASMEX, 2021). Another point of view is suggested by Vasyechko (2021), based on the idea that people react to a particular choice to invest abroad depending on their initial conditions and perception. Here, strong relations between firms are important to foster effective coordination between them, generate new forms of international competition, find better business opportunities and significantly reduce the risk. Some empirical evidence from the interviews shows that:

- ‘We have a lot of competition here. In the beginning we had a lot of competition that didn’t pay taxes. It’s called the informal market’ (I1);
- ‘There isn’t that much competition in our specific area of specialized shopping centre service providers’ (I2);
- ‘There is little competition. Here... it’s us and the French. We go head-to-head with each other’ (I8);
- ‘We already had several contacts from agricultural fairs and other events, and even contact with the Moroccan company (current partner)... There was already a strong relationship.... We reached the moment when we felt it was right to enter into a partnership with them and enter the Moroccan market...’ (I10).

Summing up the results of our analysis based on the five factors identified by the quantitative study, we point out the varied nature of the motives influencing Portuguese firms’ internationalization to Morocco. Three important findings arise from our results.

The first is the fact that when a firm invests abroad, it is pursuing a set of different aims, and for this reason, motivations are certainly not unique (Franco & Matins, 2023). In this line of thought, the results show that Portuguese companies had distinct objectives when setting up in Morocco. Motivations depend

on Portuguese firms' goals and priorities, the potential patterns of competitive dynamics between the countries, and the perceived attractiveness of the internal Moroccan market (Jenson, 2008). The second finding is related to the structured motive-based taxonomy obtained concerning Portuguese firms' decision to invest in Morocco. Authors assume the heterogeneity of such motivations, holistically associated with each other, and therefore, they cannot be analyzed *per se* (Pananond, 2015). This does not mean there are no specific valued motives weighed up in these firms' internationalization decisions. The specific motives underlying the internationalization decision process of Portuguese firms are 'available technical and scientific knowledge, competitive labour costs, local market potential and local public incentives'. The third finding is related to the country and firms' size. The specific motivations identified can also be explained by the size of Portugal, with only 10 million inhabitants, and the characteristics of Portuguese business structure, composed largely of SMEs (99.9%) (Pordata, 2020). With Portugal being a small and not particularly industrialized country, companies need to explore larger markets. In this context, the strategic geographical position of Morocco as an export platform to other African markets is an asset that Portuguese firms based in Morocco know how to take advantage of. This also allows them to improve their tradability, gaining access to knowledge or competences they do not hold, following suppliers or customers, or expanding their business, just to mention a few aspects.

According to these five factors, it can be stressed that there is no single motive for Portuguese SMEs internationalizing to Morocco. The motive can depend on firms' objectives and priorities and based on the firm's assessment of the qualities presented by the Moroccan market. Comparing the factors reflecting the motivations for the internationalization of the SMEs studied here with the study by Pananond (2015), it is possible to argue that they exist either upstream or downstream, and they support the decision to go beyond the domestic market to the international market, in this case to Morocco. This means there is not only one reason for this option, but several reasons that are holistically associated with each other and cannot be analyzed on their own. Those with the greatest impact on the decision to invest abroad are competitive labour costs, competitive price, the existence of industrial acceleration zones and geographical proximity (which, for example, in most cases, significantly reduces transport costs), but this does not remove legitimacy from the other factors.

As explained in the section 'Methodology', we also performed a qualitative study, interviewing 12 managers of the most important sectors in order to rank the different motives and factors. The results are presented in Table 7. It is important to point out the similarity of the results when compared to those of the quantitative study presented above.

Some conclusions can be extracted from the treatment of these interviews (Table 7). The geographical proximity between Portugal and Morocco and the fact that Portugal is part of the EU represent 83% of frequency of responses. This means there is a close relationship between the needs of the main Moroccan industrial clusters and their development via European partners. This perspective can be reinforced in the context of the effects of the COVID-19 pandemic and the war. This kind of new world order, in terms of globalization, leads manufacturers to look for competitive markets on Europe's doorstep, even with possible higher costs (Mirzael et al., 2021; Podrecca et al., 2021). Also, the 'new' movement of Portuguese companies to settle in Morocco at the imposition of their usual international clients, mainly in the automotive sector, engineering and other services, is certainly related with their necessity to be integrated in European value chains (42%) (Pavlinek, 2021). On the other hand, a platform for other regional markets, local market potential and skilled labour (67%) are motives with a relevant weight in Portuguese companies' decision to invest in Morocco. There is also a direct relationship between companies in specific sectors, such as construction, telecommunications and the environment, and their decisions to settle in the country resulting from diverse public opportunities in Morocco, mainly in engineering, telecommunication services and the construction sector. These motives can be considered almost natural,

Table 7. Interviews on Motives Influencing Firms' Internationalization to Morocco: Content Analysis.

Dimensions of MOTIV Variables	Automotive (N = 3) %		Services (N = 3) %		Interior Design/Deco (N = 1) %		Construction Materials (N = 1) %		Metalworking (N = 1) %		Footwear (N = 1) %		Telecom (N = 1) %		Construction (N = 1) %		Total (N = 12) %
	Number of answers	Frequency of answers	Number of answers	Frequency of answers	Number of answers	Frequency of answers	Number of answers	Frequency of answers	Number of answers	Frequency of answers	Number of answers	Frequency of answers	Number of answers	Frequency of answers	Number of answers	Frequency of answers	Frequency of answers
Geographical proximity with PT and/or with European Union (EU)	3	100	3	100	0	0	1	100	0	0	1	100	1	100	1	100	83
Skilled labour	3	100	0	0	1	100	0	0	1	100	1	100	1	100	1	100	67
Platform for other regional markets	2	67	3	100	1	100	0	0	1	100	0	0	0	0	1	100	67
Local market potential	2	67	3	100	0	0	1	100	1	100	0	0	1	100	0	0	67
Moroccan public opportunities	0	0	1	33	0	0	0	0	0	0	0	0	1	100	1	100	25
Integration into European value chains	3	100	0	0	0	0	0	0	0	0	0	0	0	0	0	0	25
Existence of zones of industrial acceleration (ZAI)	1	33	0	0	0	0	1	100	0	0	0	0	0	0	0	0	17
Political and social stability	1	33	0	0	0	0	0	0	0	0	0	0	0	0	0	0	8
Availability of raw materials	0	0	0	0	0	0	1	100	0	0	0	0	0	0	0	0	8
Weak competition	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	100	8

given the geographical proximity between the countries and the positive image of Portuguese companies in the eyes of institutional and private Moroccan institutions. However, other aspects that were not much valued by the survey respondents are the existence of zones of industrial acceleration (ZAI) (17%), political and social stability, availability of raw materials and weak competition (8%).

Contributions to Theory and Management

The main contribution of this study was to fill a gap in the literature about the motives for internationalization, especially by Portuguese firms to the Moroccan market. It was possible to add new knowledge and establish several types of motives for internationalization among the firms surveyed, being categorized in five dimensions: (a) Price and Business Infrastructure, (b) Regional Hub and Business Environment, (c) Financial Incentives and Raw Material, (d) Skilled Labour Force and (e) Weak Competition and International Business Partners. The study shows that these factors/dimensions are associated both with firms' resources and capacities and with the characteristics that sometimes define the entrepreneur/manager's perceptions.

Because of the uncertain nature of the globalization process, it is increasingly important for companies to diversify their direct investments and their ways of entering international markets for their survival in a business environment that tends to be disruptive and in constant change. Moreover, the constraints caused by COVID-19 in 2020–2021 and the geopolitical impact of the war in Ukraine in 2022 have brought to light the vulnerabilities of the internationally fragmented supply chains, so companies should reduce their dependence on a single market and enter markets in emerging economies, especially those that provide economic stability, attractive government support and lower production costs. In this new context, the importance of geographical proximity, even when other differences may exist, is highlighted.

In terms of practical and business implications, companies must understand the internationalization process as a way to improve their performance and competitive advantage. This means they must choose the form of entry into the international market that best suits their organizational structure, their tangible and intangible resources, and study the synergies they can obtain in the chosen market for this process to be a success. From the perspective of SMEs, which are characterized by a particular type of management and often deal with a shortage of human resources, versatility is a competence. Thus, taking advantage of the skills and knowledge of emerging economies' resources is a synergy and motivation for such firms. Indeed, it is essential that SMEs, highly representative in our case study, are successful in the internationalization process, as they also account for the majority of businesses in Europe and the world and generate a significant volume of wealth and employment. Decision-making on how to internationalize must consider the legal, political and economic system of the country where they intend to invest, its exogenous and endogenous characteristics, so that significant economies of scale are generated. A deep knowledge of countries to which the firm internationalizes, and the inner functioning of their economies, even when proximity and similarities are supposed to exist, are one of the most important aspects to be considered. Additionally, managers' pro-activeness is essential for successful internationalization, with the so-called soft skills being necessary in the new international business models.

As far as SMEs are concerned, given their size, they usually choose exports as the first step to enter the international market and adopt their strategy accordingly, in which a direct customer approach is a viable option to minimize risk and facilitate direct contact with the foreign market. Motivations are also related to issues of growth, and sometimes survival, as a result of a saturated home market. In addition, the business model adopted, managers' profile and the networks companies belong to will often drive the decision to internationalize.

Regarding the results of our research, and focusing on SMEs, other key points must also be underlined: (a) *Market Expansion*—internationalization allows SMEs to tap into new markets and customer segments, reducing dependency on a single domestic market. This diversification can protect against economic downturns and market-specific risks; (b) *Revenue Growth*—accessing international markets often translates into increased sales and revenue. SMEs can expand their customer base and potentially benefit from increased demand for their products or services; (c) *Competitive Advantage*—going global can provide a competitive advantage, especially if a company offers unique products or services. Entering new markets ahead of competitors can help establish brand recognition and market share; (d) *Risk Diversification*—relying solely on one or a few markets can be risky. Internationalization spreads risk across multiple markets, reducing vulnerability to local economic or political cycles; (e) *Access to Resources*—internationalization can open doors to new resources, including talent, technology, and financing. SMEs can access skilled labour, new technologies, necessary raw materials and funding opportunities in the global markets; (f) *Innovation and Learning*—entering new markets often requires innovation and adaptation, creating additional assets that must be leveraged, that is, SMEs must learn about local consumer preferences, regulations and business practices, leading to improved problem-solving and innovation; (g) *Cost Efficiency*—economies of scale and cost advantages in different regions can reduce production and operational costs. So, SMEs must take advantage of internationalization to source materials or production in less cost-effective ways; (h) *Brand Image and Reputation*—expanding internationally can enhance a company’s brand image and reputation. Being a global player can signal stability, reliability, ability to overcome risks and success; (i) *Networking and Partnerships*—internationalization can facilitate networking and partnerships with other businesses, including joint ventures, distribution agreements and strategic alliances, which can lead to further growth opportunities; (j) *Regulatory and Cultural Challenges*—SMEs need to understand and navigate diverse regulatory environments, cultural differences and legal frameworks in international markets. This requires careful planning and compliance; (k) *Market Research and Entry Strategies*—SMEs must invest in market research to identify target markets and develop entry strategies. Understanding customer preferences, local competition and market trends is essential for success; (l) *Resource Allocation*—international expansion requires careful allocation of resources, including finances, personnel and time. SMEs need to balance domestic and international operations effectively.

In summary, internationalization is a multifaceted phenomenon that can offer numerous benefits to SMEs, but it also comes with challenges and risks such as different financial practices or less well-known market environments. Thus, successful internationalization requires a well-thought-out strategy, market research, risk assessment and adaptability. If they are aware of all the complexity that internationalization involves, SMEs that navigate the process can effectively enhance their performance and competitive advantage in the global marketplace, overcoming the challenges.

Limitations, Recommendations and Future Research Agenda

This study has some limitations. First, the results cannot be generalized to larger groups. For example, the comparison between big companies and SMEs can be explored more in order to identify differences and similarities in the entry and leverage of new markets. Another limitation lies in the specific geographical context of the study, so this should be overcome with future studies in several emerging economies, also for comparative purposes. Further research opportunities lie in increasing the sample size and carrying out comparative work by focusing on other motives for internationalization in different

markets. Moreover, global disruption caused recently by the pandemic and the wars has raised the interest in internationalization and supply chain studies, so this topic offers major avenues for research, namely as regards the future role of the regional and the proximity contexts. Indeed, in this rapidly changing landscape at a world level, even geographical proximity, which tended to be minimized at the height of globalization, is much more valued now as we approach the middle of the 2020s. It would also be interesting to study successful exporting companies and their impact on the global chains, before, during and after these disruptive events. In this new context, studies on diverse barriers to internationalization, not only economic but also cultural, political, institutional, etc., are very much needed. Finally, studies on how and why the profile of managers influences the internationalization process is another possible research path.

Apart from the process that characterizes the course of Portuguese–Moroccan economic relationships in the third decade of the twenty-first century, from which some points have been raised in this article with its emphasis on the motives of Portuguese firms that internationalized to Morocco, it is necessary to deepen this study, in order to extract new policy recommendations, with a long term view, for the benefit of both countries in the new context, given the existing potential which is far from being fully explored. Furthermore, this case is extremely interesting to be followed insofar as these countries, despite their geographical proximity, are culturally and religiously different, a context which is certainly not unique in the world.

More generally, and focusing on the case of SMEs, several notable trending topics are emerging for future research, such as Global Economic Shifts, Technological Advancements, Evolving Trade Policies, E-commerce Expansion, Sustainability and Environmental, Social, and Governance Factors (ESG), Supply Chain Resilience, Market Entry Strategies (e.g., SMEs may increasingly adopt agile market entry strategies, such as digital marketing campaigns targeting specific regions or niche segments, which can reduce costs and risks associated with traditional market entry methods), Cross-Cultural Competence, Regulatory Compliance, Remote Work and Global Talent, Customer-Centric Approach (e.g., SMEs should prioritize a customer-centric approach by understanding and meeting the unique needs and preferences of customers in different markets where personalization and localization will be key strategies), Competitive Intelligence, Government Support. These trending topics, despite the ups and downs of globalization, mean that the internationalization process will remain a critical aspect of business growth for companies, particularly SMEs, in the future. Being adaptable, tech-savvy, and socially responsible will be key to capitalizing on global opportunities while safely managing the complexities and uncertainties that characterize international markets in the foreseeable future.

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Notes

1. It is important to remember, and only considering the last millennium, that Portugal and the people of present-day Morocco had ties across that part of the Atlantic separating them, and significant evidence of that remains in both countries.
2. On the distinction between the concepts of FDI and the multinational enterprise, see Pearce (2017, chapter 2).
3. By the turn of the century, from a previous basically host country, Portugal advanced in the FDI field according to the investment development path advanced by Dunning and Narula (1996), work already referred to in Section ‘Literature Review’ (as well as others with similar points of view); for more details on the subject, see Silva (2006).
4. From the same source, it must be added that two-way trade in services amounted to €7.7 billion; EU imports of services represented €4.4 billion, and exports amounted to €3.3 billion.
5. For a more detailed analysis on this subject for the case of Portugal, see Silva (2015, pp. 184–185).
6. For the purposes of this study and to classify the entrepreneurial units as SMEs, the number of employees were used as the defining criteria, that is, fewer than 250 employees, according to the European Commission Recommendation (2003/361/EC).

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