

BTI 2010 | Morocco Country Report

Status Index	1-10	4.47	# 98 of 128	
Democracy	1-10	4.05	# 95 of 128	➔
Market Economy	1-10	4.89	# 86 of 128	➔
Management Index	1-10	4.00	# 98 of 128	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

The BTI is a joint project of the Bertelsmann Stiftung and the Center for Applied Policy Research (C•A•P) at Munich University.

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Key Indicators

Population	mn.	30.9	HDI	0.65	GDP p.c.	\$	4108
Pop. growth	% p.a.	1.2	HDI rank of 182	130	Gini Index		40.9
Life expectancy	years	71	UN Education Index	0.57	Poverty ²	%	14.0
Urban population	%	55.7	Gender equality ¹	-	Aid per capita	\$	35.3

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

Executive Summary

The major economic and political trends in Morocco from 2007 to 2009 remained consistent with those of the previous BTI reporting period from 2005 to 2007. Morocco's primarily agricultural economy is still dependent on the level of rainfall. While Morocco's economy grew around 8% in 2006, insufficient rainfall led to a significant decline in GDP growth to 2.31% in 2007. The steady growth of the non-agricultural sector, however, has made the Moroccan economy less susceptible to variations in the output of the agricultural sector. The unemployment rate declined between 2007 and 2009, and according to official figures, the level of poverty has substantially dropped. Another new development is the stunning rise in tax revenues. Although this is good news for Moroccan public finances, it does not necessarily indicate that more economic actors of the informal sector are paying their taxes. A more detailed analysis of the revenue stream shows that the increase mainly stems from a reduction in the number of tax exemptions and more aggressive collection of taxes from those who were already operating in the formal sector.

Despite fairly transparent legislative elections in 2007, Morocco's political system is still authoritarian in nature. The 2007 elections had the lowest turnout in the history of the country with only 37% of registered voters participating. If spoiled and blank ballots and non-registration are taken into account, less than 25% of eligible Moroccans cast a vote for a list. One simple interpretation of the low turnout is that Moroccans do not care about the elections and the parliament, because they fail to see either as relevant to their lives and interests. The election's dismally low turnout is a setback for the monarchy. A high turnout would have provided the political institutions dominated by the monarchy with a gloss of popular legitimacy. The election results challenged the wisdom of the Islamist Justice and Development Party's (PJD) political strategy. The PJD performed well below expectations, breaking the electoral momentum it had maintained since it first participated in the legislative elections in 1997. The election results underscore an increase in direct political action in Morocco. Social contestation has taken the form of civil disobedience, including riots.

Morocco enjoys the firm support of most relevant Western players in the region, namely the United States, France and Spain. These international players have offered economic support for the Moroccan regime's reform agenda and as a reward for Morocco's obedient cooperation on issues of security. In Africa, on the contrary, Morocco remains widely isolated. Morocco's relationship with Algeria is still in the doldrums, and its conflict with Western Sahara remains stalemated. Both negatively affect Morocco's international standing. Morocco remains one of the last two African countries that are still not members of the African Union.

History and Characteristics of Transformation

In the years following its independence from France in 1956, a power struggle erupted in Morocco between the nationalist movement and the monarchy. To combat the anti-monarchy wave that swept through the Middle East and North Africa region, the Moroccan monarchy decided to rely on both the patron-client system with rural elite, which the previous French administration had created, and its close ties with the urban bourgeoisie. The monarchy oriented its foreign policy around its goal of suppressing domestic opposition. Leftist movements constituted the most strident oppositional force. The monarchy's political choices prompted economic policies that helped preserve its rule. These choices also created many of the economic, social and political problems Morocco faces today. Contrary to many other newly independent countries in the region, Morocco refrained from initiating massive industrialization programs financed through a transfer of wealth from the agricultural sector. This corresponded to the monarchy's objective of gaining support from the major rural landowners. However, the Moroccan monarchy emulated other developing nations in resorting to tariff barriers to develop import substitution industries and promote national industries, both of which contributed to creating a docile bourgeoisie. Import substitution schemes put the state at the center of the economy, and state officials engineered the country's industrial and commercial landscape. These policies exacerbated social inequalities. Riots threatened the regime in 1965, but were harshly repressed. In 1971 and 1972 two military coup attempts likewise failed to topple the monarchy. King Hassan II reacted to the unrest by adapting redistributive policies aimed at appeasing the constituencies of the political opposition. He raised the minimum wage and granted scholarships to all students attending university. Simultaneously, he initiated the so-called Moroccanization process, which consisted of redistributing land and businesses that were previously owned by foreigners and former French colonizers. This policy mainly benefited the military and the urban bourgeoisie. During this period, the regime expanded the parastatal sector. The financial cost of this economic reorientation was initially borne by a surge in phosphate prices during the early 1970s. Subsequently, Morocco resorted to foreign loans, which eventually led the country into massive debt.

The public financial crisis caused by this debt led to restrictions on public expenditures, which in turn triggered a wave of social unrest that crested in the bread riots of June 1981. The public

financial crisis culminated in 1983 when Morocco took loans from the World Bank and the IMF. During the 1980s, a combination of factors helped to mitigate the potentially harsh effects of Morocco's austere measures to restore macroeconomic stability. First and foremost, after a long period of drought, rainfall rose back to a normal level and at times even exceeded it. Given the importance of the agricultural sector in the Moroccan economy (half of the population lives in rural areas), the end of the drought period brought tremendous relief both economically and politically. An increase of immigrant workers' remittances was another stabilizing factor. To ease the pain of the urban poor, the Moroccan authorities let the informal economy thrive. With regard to politics, the regime used the Western Sahara issue that erupted in the middle of the 1970s to silence dissent and cement national unity. Alongside the macroeconomic stabilization program, Morocco embraced economic globalization, adhering to GATT in 1987. Since then, the country has pursued a policy aimed at economic integration with the European Community and European Union, which culminated in the conclusion of a Euro-Mediterranean association agreement in 1996. The association had refused Morocco's membership application in 1987.

The 1990s were characterized by a number of wide-ranging economic reforms and some important political developments. Morocco modernized the legal environment for its business sector. New laws were enacted in the banking sector and for regulating the financial markets, the tax system was overhauled to simplify and optimize tax collection, and a major privatization program was implemented. However, macroeconomic modernization fell short of dismantling Morocco's complex and deeply entrenched patronage system. Economic problems and the need to gain assistance from Western countries forced King Hassan II to ease the iron grip he held on the political arena. In particular, he sought to overcome his negative human rights record. He reached out to the opposition, a process that in 1998 culminated in the formation of a new government led by Abderahmane Youssoufi, then secretary general of the Socialist Union of Popular Forces (USFP), the main opposition party at that time. In hindsight, it is obvious that this move appeased and prevented the opposition from exploiting the negative social consequences of the economic reforms.

To avoid undesired policy outcomes, Hassan II proposed a constitutional reform in 1996 that led to the creation of a second chamber, which was subsequently established with wide-ranging powers and a mainly pro-regime composition. The king, in the wake of the 1997 legislative elections, allowed an Islamist organization to enter the official political arena for the first time. This resulted in the birth to the Party of Justice and Development (PJD). At the same time, however, the regime conducted negotiations with a second, supposedly more popular but also less compromising, Islamist organization, the Justice and Charity Movement (JCM). The regime aimed at convincing the JCM to abandon some of its anti-monarchy positions. The negotiations were ultimately inconclusive as the JCM was not ready to accept the regime's political and religious leadership. The 1990s were also marked by some improvements with regard to human rights. Hassan II established the Consultative Council on Human Rights in 1990, which granted a general amnesty to almost all the remaining political prisoners. In general, human rights violations, although continuing, became less frequent.

After Hassan II died in July 1999, his successor Muhammad VI made some political decisions that seemed to indicate his willingness to continue the process of political liberalization. Two symbolic gestures stood out in particular, namely his release of the JCM leader Abdeslam Yassine from house arrest and allowing Abraham Serfaty, the previous king's Marxist arch-opponent, to return from exile. Muhammad VI's most dramatic gesture was the firing of Driss Basri, the former minister of the Interior and Hassan II's most trusted advisor. Subsequently, Muhammad VI established the Equity and Reconciliation Commission (IER), which the king charged with identifying and compensating former victims of human rights violations. In October 2003, Morocco's parliament, steered by a royal commission, passed a new family law that improved the legal framework of women's rights. In spite of these improvements, the first five years of Muhammad VI's reign were marked by human rights abuses. These were mainly linked to the anti-terror campaign following the 9/11 attacks and the terrorist bombings that occurred in Casablanca on 16 May 2003. The press was increasingly repressed. The 2002 legislative elections and the 2003 municipal elections failed to achieve minimum standards of transparency and credibility. Their detailed results have never been made public. Additionally, the PJD was forced to limit its electoral participation to contesting only around 50% of the seats in 2002 and around 15% in 2003.

Transformation Status

I. Democracy

1 | Stateness

The state possesses a monopoly on the use of force throughout the whole Moroccan territory. A recent wave of arrests related to drug trafficking among law enforcement agents in northern Morocco, however, underscores the difficulties the Moroccan authorities face in imposing law and order in this historically volatile region of the country. These arrests could also signify a greater resolve on the part of the regime to fight the drug trafficking networks. While a drug-related crackdown on illegal migration from Morocco's northern shores to Spain led to a reduction in the number of boat people refugees, indications are that drug trafficking continues unabated. In the south, the military continues its thirty-year fight against the Polisario Front in the Western Sahara territories.

Monopoly on the use of force

Morocco's status as a nation-state is considered legitimate by almost all actors. Although the constitution provides for civic equality, certain groups are denied their rights on political or religious grounds. Moroccan authorities continue to harass pro-independence Sahraoui militants living in the region of Western Sahara area under Morocco's control. Some Islamic groups are denied their rights of free speech and of association because the regime considers their political views to be subversive. In particular, the regime targets the Justice and Charity Organization (JCO), a banned though popular Islamic movement. The JCO refuses to recognize the king as the commander of the faithful.

State identity

Islam is the official religion of the state. The king, who is head of state and effectively controls all the government branches, holds the title of commander of the faithful, reflecting the country-specific understanding of Islam called Malekism, derived from the word malek, or king. The king's power to rule largely rests on his ability to maintain his religious legitimacy. His apparent monopoly on interpreting Islam manifests itself in his control of the 'ulama establishment. At times, however, the clergy challenges the king's religious authority. When, for example, the Royal Commission proposed a liberal reform of the family code, it appealed to the clergy, albeit of the liberal sort, for support. In general, however, the regime uses its self-

No interference of religious dogmas

ascribed authority to clamp down not only on the ‘ulama, but also on its political opponents. Morocco’s legal system also reflects this complex religious-secular relationship. With the exception of laws pertaining to the personal status (marriage, inheritance, divorce, adoption, etc.), Morocco’s legal system stems from the French colonial period and is disconnected from Shari’ah.

The size of the informal sector and the existence of a thriving drug economy both denote the relative weakness of Morocco’s basic administrative structures. The informal sector is estimated to represent around 40% of the economy. According to the U.N. Office on Drugs and Crimes, Morocco remains the largest exporter of cannabis resin in the world. The rapid increase of tax receipts might be a sign of better administrative abilities to increase state resources, though the lack of information about the composition of these receipts makes any conclusion impossible. The increase might simply signal a milking of taxpayers in the formal sector.

Basic
administration

2 | Political Participation

Morocco held its third major elections under the rule of Muhammad VI in September 2007. The first two, the legislative election in 2002 and the municipal election in 2003, witnessed intervention by the regime in the process. The authorized Islamist party, the Party of Justice and Development (PJD), was forced to limit its participation in the municipal elections to only 18% of the districts. During the legislative election of 2002, the PJD decided to run candidates for only around 30% of the seats. The regime did not have to intervene because the limitation was self-imposed. Contrary to previous elections, accusations of state intervention were muted during the latest legislative elections in September 2007. International observers concurred that the process was transparent and free of state intervention. Moroccan observers, in contrast, noted excessive vote-buying. As in the previous elections, the ministry of interior has not made public any detailed results. Analysts pointed to the fact that extensive gerrymandering had reduced the possibility of success for political parties whose interests clashed with those of the regime. The PJD lost the most from this policy. Despite winning a plurality of votes, the PJD came only second in terms of seats. The conservative al-Istiqlal party won the greatest number of seats, and its secretary general was asked by the king to form the new government. Apart from the questionable results, the most problematic outcome of these elections was the low voter turnout, reaching only 37%. This testifies to the population’s high degree of disillusionment with the electoral process and the general state of democracy in Morocco.

Free and fair
elections

Elected officials in Morocco do not possess effective power to rule. Although the Moroccan system is described as a constitutional monarchy, some analysts quip that it is rather a monarchy with a constitution. In other words, the constitution

Effective power to
govern

consecrates a system that allows the monarchy to control all levers of state power. The monarchy regularly interferes with parliamentary affairs and the constitution of the executive. The king directly appoints the ministers of defense, interior, foreign affairs and Islamic affairs. The multiplication of royal commissions with more power than the ministers remains an important feature of the autocratic nature of the regime.

Reaching out to civil society has been the hallmark of Muhammad VI's early reign. In return for the king's support, however, civil society actors had to align themselves with the monarchy's political and religious worldview. Two initiatives have arguably increased the regime's control over civil society. First, the king backed the creation of a new mega-foundation, the Muhammad V Foundation (M5). Each year the foundation organizes a huge fundraising day, during which businesses and influential people feel obliged to contribute. As a result, M5 crowds out other NGOs. It redistributes its funds to what it considers to be worthy projects – of course not always free of blatant political bias. Some otherwise successful NGOs were cut off from funds because of their promoters' political views. The regime's second major assertion of its force into civil society came with the founding of the National Initiative for Human Development (INDH). Ostensibly created by the monarchy to fight poverty, the INDH is charged with forming strategies to reduce poverty by working together with relevant civil society actors and local authorities. In practice, however, many key NGOs were kept out of the INDH because of their affiliation with the political opposition. Although the constitution guarantees freedom of association, groups considered contrary to the regime's interpretation of Islam, the monarchy itself or the territorial integrity (meaning that Western Sahara is Moroccan), are not permitted to register. One example of such groups is the Sahrawi Collective of Human Rights Defenders (CODESA).

Association /
assembly rights

Freedom of expression in Morocco is still severely constrained by what the regime calls "red lines," fuzzy legal concepts regularly used by the judiciary to punish critique of the monarchy, Islam and Morocco's territorial integrity. In May 2007, the Committee to Protect Journalists (CPJ) put Morocco on its list of the 10 worst backsliders. In the Reporters Without Borders (RSF) Worldwide Freedom Index, Morocco's ranking slid from 97 in 2006 to 106 in 2007 and finally to 122 in 2008. In August 2007, RSF stated that 34 media institutions had been censored and 20 journalists had been prosecuted since the beginning of the current king's reign. Numerous cases of freedom of expression violations took place in the studied period. A young journalist was tried and sentenced to two years in prison for criticizing the king in a news website. After an international campaign on his behalf, an appellate court rescinded the first judgment and ordered his release. As documented by CPJ and RSF, the regime makes extensive use of the judiciary to silence the press. Many media outlets, for example, were forced to pay extravagant fines in fabricated defamation cases. Hailed as a major turning point for freedom of

Freedom of
expression

expression, the opening of the audiovisual sector to private interests did not increase the freedom on the airwaves as compared to the period when the sector was still the preserve of the state.

3 | Rule of Law

While the constitution pays lip service to the separation of powers, it in fact legitimizes the concentration of all major political power in the monarchy's hands. In one way or the other, the legislative, executive and judicial branches of government are ultimately controlled by the king. The constitution offers no counterbalance to monarchical power. The monarchy has ignored the demand from several political parties and NGOs to initiate a process of constitutional reforms. Moreover, the regime's negative attitude toward the proponents of such reforms thwarts all debate.

Separation of
powers

The most prominent sign of the regime's enduring authoritarianism is the judiciary's subservience to the monarchy. The Higher Council of the Judiciary (Conseil Supérieur de la Magistrature) is dominated by the king's appointees. The judiciary is the regime's preferred tool of repression. Judges issued exceptionally harsh sentences on freedom of speech cases to journalists, political activists and normal citizens who criticized the monarchy. Alleged terrorism cases are still being tried without regard to the defendant's rights. Many reputable national and international NGOs have denounced the partiality and political subservience of the judiciary.

Independent
judiciary

The Transparency International Corruption Perception Index (CPI) concluded that the perception of corruption in Morocco is worse now than it was during the last years of Hassan II's reign. The expectation that the so-called New Reign would fight corruption and patronage has been disappointed to a certain extent, because prosecutions against some high-profile close associates of Hassan II have been botched. Likewise, a new generation of courtiers has emerged with the same nepotistic behavior as their predecessors. The expansion of the king's business ventures combined with his political domination of state institutions has instilled fear in Morocco's business community. During the period under study, prosecutions of law enforcement officials, especially in cases related to drug trafficking, have grabbed headlines but have resulted in no lasting impact. People generally discount these arrests as mere window dressing for internal vendettas. As proof of the government's willingness to fight corruption, the minister of justice declared in July 2007 that the number of prosecuted cases of corruption had doubled between 2005 and 2006. The government created a Central Commission for the Prevention of Corruption charged with eradicating corruption. It is too early to assess whether or not this commission has brought improvement.

Prosecution of
office abuse

Civil rights and equality before the law are constitutionally guaranteed. In former years, Moroccans who converted to Christianity were arrested and sentenced to jail on the accusation of proselytism. Although no new case has recently surfaced, proselytism for another religion than Islam is still against the law. Sahraouis are constantly denied their civil rights. Muhammad VI, following up on his father's tentative policies to acknowledge and compensate victims of human rights abuses, formed the Equity and Reconciliation Commission (ERC). The commission was charged with assigning responsibility for human rights abuses and for deciding on the proper level of compensation for the victims. The commission submitted its final report to the king in 2006. Despite its investigation of more than 16,000 cases and its compensation of 9779 victims, the criticism against the ERC grew louder as it dismissed sensitive cases implicating high-ranking security officials. Moreover, the ERC's silence on new human rights violations, which took place during its investigation of the past, undermined the commission's credibility. Human rights associations also criticized the ERC's unwillingness to look at cases involving Sahraoui militants. Finally, the commission's recommendation for constitutional reform went unheeded, giving further ammunition to those who dismiss its work as a mere whitewashing operation for the regime.

Civil rights

4 | Stability of Democratic Institutions

The Moroccan constitution is designed to enshrine the monarchy's control of the state. Separation of powers is non-existent. The parliament cannot legislate without the consent of the king. Since legislation is unable to be passed without convening a formal council of ministers (conseil des ministres), which is attended by the king, many laws suffer long delays before they are enacted. Though democratic institutions formally exist, the Moroccan system remains an authoritarian system led by the monarchy.

Performance of democratic institutions

Morocco's monarchy has shown time and again its unwillingness to accept the initiation of constitutional reform. The main left and center-left parties as well as the main Islamist parties and movements are advancing the constitutional reform agenda geared toward strengthening democratic institutions. Recently, the left party and the Islamist Party of Justice and Development (PJD) have begun collaborating in order to strengthen their demands for the reform.

Commitment to democratic institutions

5 | Political and Social Integration

The party system and the composition of parliament remain very fragmented after the 2007 legislative elections. The Laasko/Taagepera Index stands at 9.71. 23 parties are represented in the parliament. Low turnout in the last elections further damaged parliament's legitimacy. Only 37% of the eligible registered voters went

Party system

to the polls and a third of them cast an invalid or a blank ballot; in sum, only 25% of eligible registered voters cast a valid ballot. Citizens have limited trust in the political parties' willingness to represent and protect their interests. This retreat from representative democracy was not reversed by the greater participation of the Islamists. In the 2007 elections, the Party of Justice and Development (PJD) contested every district except one, while in the 2002 it covered only 30% of the districts. Though this decision should have resulted in higher voter's turnout, the reverse happened. One explanation is the perceived irrelevance of the parliament. Proponents of the status quo, on the other hand, argue that this lack of interest is simply the consequence of the Moroccans' political immaturity. A major political development took place in 2008 with the creation of a new party for the regime, the Authenticity and Modernity Party (PAM). The PAM was founded by Fouad Ali al-Himma, the king's close friend and a former deputy minister of the interior. The new party's declared goals are to counter the Islamists and implement the monarch's vision.

In stark reversal of its actions in the late 1990's, the regime has attempted to domesticate the main representatives of civil society. The General Confederation of Moroccan Enterprises (CGEM), the business community's main representative body, has generally toed the regime's line, especially as its president was appointed at the monarchy's request. The Muhammad V Foundation, Morocco's largest, has served as the monarchy's arm for punishing noncompliant NGOs. Unions' subservience to political parties means that they suffer from the same popular disaffection.

The last reliable poll querying the Moroccan population's support for democracy dates back to 2003. In this survey, published by the Pew Research Center, 63% of Moroccans said they favor a Western-style democracy. In 2001, the World Value Survey found that 96% of Moroccans rated the democratic political system as "very good" or "fairly good." 84% answered that "having a strong leader instead" would be bad or very bad. 86% said that it would be "bad" or "very bad" to have army rule. Combined with the very low voter turnout in the 2007 legislative elections, these results indicate that Moroccans do not consider the current political institutions to be democratic enough.

The trend of social and economic discontent taking the form of citizens' protest outside the purview of political parties has continued between 2007 and 2009. Human rights organizations, especially the Moroccan Association of Human Rights (AMDH), have been more successful in benefiting from this wave of social and economic dissatisfaction. While anecdotal evidence suggests that the banned Islamist movement has a strong web of NGOs advancing its agenda through social work, the lack of data makes the phenomenon impossible to quantify. In addition to organized activity, the last three years have seen a multiplication of spontaneous demonstrations by citizens protesting against the rise in basic commodity prices and the government's social failings.

Interest groups

Consent to democratic norms

Associational activities

II. Market Economy

6 | Level of Socioeconomic Development

Morocco has slid from position 123 to 127 in the 2007-2008 UNDP Human Development Index (HDI). Despite this deterioration, data show a marginal improvement in Morocco's overall HDI compared to the 2006 report from 0.640 to 0.646. Morocco's dismal performance is mainly due to a low adult literacy rate (52.3%). The last available Gini coefficient for Morocco published by UNDP was 39.5 based on a survey conducted at the end of 1998. According to statistics provided by the Moroccan government, inequality remains glaring between urban and rural areas and also between women and men. Although access to electricity improved over the last years, access to the national grid is still only at 65% in the countryside and 95% in urban areas. Only 36% of households in rural areas have access to the drinking water system, compared to 94% in the urban areas. 33% of Moroccan citizens have access to social security systems. The share of GDP spent on public health has declined compared to the previous BTI reporting period (2005 – 2007) from 2% to 1.2%.

Socioeconomic
barriers

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	56948	59523.9	65637.1	75118.8
Growth of GDP	%	4.8	3.0	7.8	2.7
Inflation (CPI)	%	1.5	1.0	3.3	2.0
Unemployment	%	10.8	11.0	9.7	9.6
Foreign direct investment	% of GDP	1.4	2.7	3.6	3.7
Export growth	%	6.3	13.3	11.6	5.2
Import growth	%	9.9	9.6	8.2	15.0
Current account balance	\$ mn.	969.6	1040.6	1411.2	-122.0

		2004	2005	2006	2007
Public debt	\$ mn.	14105.2	12441.4	13495.8	15670.3
External debt	\$ mn.	16882.7	16174.1	17880.3	20254.7
Total debt service	% of GNI	5.4	4.6	5.3	5.4
Cash surplus or deficit	% of GDP	-2.3	-2.5	0.6	2.5
Tax Revenue	% of GDP	19.9	22.0	22.4	25.2
Government consumption	% of GDP	18.7	19.4	18.5	18.2
Public expnd. on edu.	% of GDP	5.6	5.9	5.5	-
Public expnd. on health	% of GDP	1.4	1.4	1.4	-
R&D expenditure	% of GDP	-	-	0.6	-
Military expenditure	% of GDP	3.4	3.4	3.3	3.2

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

7 | Organization of the Market and Competition

The legal framework regulating market competition has remained unchanged during the period from 2007 to 2009. Morocco's commitment to a market-oriented economy translates into a freedom of pricing, with the exception of a few socially sensitive products like bread. World Bank data indicate the existence of a large informal economic sector employing 45% of the non-agricultural workforce. Serious evaluations of the informal sector's size, however, have not been published in recent years, making precise descriptions of its size and importance impossible. The policy to attract more foreign direct investment has led to the possibility for foreign investors to repatriate their capital and profits in hard currency. Monetary authorities, however, are still wary of the repercussions of full convertibility for Moroccan nationals. Moroccans' ability to expatriate their funds is still severely restricted. Many think that the king's overbearing involvement in the economy through his sprawling private businesses stifles competition. The persistence of pervasive corruption also negatively effects market-based competition.

Market-based competition

As exemplified by the moribund Council of Competition – formed in 2002 to implement anti-trust laws passed in 2001 – the Moroccan authorities are not especially keen on tackling anti-competition practices. The council holds only a consultative role. The prime minister has the exclusive power to decide whether or not to follow up on the council's recommendations. Far from being an impartial

Anti-monopoly policy

institution serving the higher purpose of fighting undue economic concentration or anti-competition practices, the council is a mere instrument for the executive to cherry-pick the anti-competition cases it is interested in prosecuting.

Consistent with its engagements with the European Union, the United States and the World Trade Organization, Morocco has been steadily albeit slowly reducing its tariff rates. Morocco's weighted average tariff rate has decreased from 14% between 2005 and 2007 to 11% between 2007 and 2009. Despite this progress, non-tariff barriers and some prohibitive tariffs remain in place. The administration's inefficiency and Morocco's widespread corruption are additional obstacles to foreign trade. Growing phosphate exports and rising oil imports have increased the proportion of foreign trade relative to the GDP from 66% in 2005 to 72% in 2007.

Liberalization of
foreign trade

The Moroccan banking system adapted the Basel II standards in 2007. According to the Moroccan Central Bank, non-performing loans have decreased from 16.2% in 2005 to 8% in 2007. The 90% increase in consumer and real estate loans from 2005 to 2007 is worrisome. In its latest report, the Central Bank warned against the overheating of the real estate markets and its potential impact on the banking sector. Turmoil in the management of Attijari Wafa Bank, a bank controlled by the king, was triggered by the bank's over exposure to the king's non-banking businesses. Nepotism and the unwillingness of the financial regulatory bodies to clamp down on irregularities when committed by well-connected institutions remain concerns.

Banking system

8 | Currency and Price Stability

After inflation rose a relatively tame 2% in 2007, it spiked to 3.9% in 2008. There are doubts about the validity of these numbers, as they are believed to be higher than advertised. Moreover, the government keeps inflation artificially under control by providing large subsidies to staple food and oil. A managed currency exchange tends also to distort inflation. Legislation passed in 2006 might have given the Moroccan Central Bank more autonomy, but it is ultimately still subservient to the demands of the executive. There is widespread agreement, however, that the current Central Bank leadership is doing a better job than the previous one. The dirham is pegged to a currency basket whose composition is kept secret by the Central Bank. This system is considered to have ensured the dirham's stability. Debates continue about whether to devalue the dirham or not. The international financial authorities have been pressuring Morocco to allow the dirham's depreciation. They believe that the Moroccan currency level hampers exports.

Anti-inflation /
forex policy

Morocco has pursued efforts to achieve macroeconomic stability. Exceptional tax receipts in 2007 led to an almost balanced budget. This tax performance was partly due to GDP growth of 7.8%. The government debt was reduced to 55% of GDP, compared with 58% in 2006 and 62% in 2005. The treasury fully repaid the cash

Macrostability

advances previously granted by the Central Bank. The main challenge for Morocco is to reduce its dependence on rainfall. As a result of poor rainfall in 2007 GDP growth only reached 2.31%. This result is not as bad as it seems, as non-agricultural GDP has grown at an average of 5.5% since 2004 – a full 2% improvement over the 3.5% of the last years before 2004. Morocco's improvement in its fiscal performance was rewarded by an investment-grade rating on its most recent sovereign bond issue. If the trend is positive, reliance on rainfall remains a concern. The impact of the current international economic crisis will severely test the Moroccan economy's resilience, as remittances for workers living abroad, tourism and demand from Europe (its main export market) may particularly suffer.

9 | Private Property

Property rights are well-defined under Moroccan law. Pervasive judicial corruption and the judiciary's lack of independence are major sources of concern regarding the enforcement of property rights. The king's unflinching control of the judiciary is an important factor in investors' insecurity. Because an alliance with the king is considered a protection from the judiciary, major foreign investors from the United Arab Emirates have allied with the king's businesses in the most important real estate deals initiated in the last four years.

Property rights

Since Morocco underwent an ambitious privatization program in the 1990s, the transfer of previously state-managed services to private operators has continued unabated. Recent privatization operations concerned the telecom and the water and electricity distribution sector. Two worrying trends characterize the most recent privatizations. First, short-term income generation for the treasury has gained precedence over long-term economic and social benefits. This phenomenon was displayed in the Tobacco Company privatization, in which the acquiring company was granted monopoly status. Secondly, the king controls, through his holding company Siger, the private business group benefitting from these privatizations; therefore, it is hard to classify these sales as "true privatization" measures.

Private enterprise

10 | Welfare Regime

The publicly funded social safety net remains very insufficient to insure adequate coverage for Moroccan citizens. Only a small fraction of workers are affiliated with the compulsory social security scheme. Indeed, the most reliable figures available (coming from the World Bank) state that 45% of all workers are employed in the non-agricultural informal sector. The establishment of a compulsory health insurance scheme in 2005 has extended coverage to 3.2 million people, according to figures released in late 2008. Health care represents a mere 1.7% of GDP in the 2007 state budget. Traditional solidarity networks have been eroded by rural

Social safety nets

migration to urban areas. The newly appointed government claims to be working on a new subsidies policy. The current policy of providing aid to the poor by subsidizing basic food and oil is particularly expensive and wasteful. Moreover, it is not properly targeted toward those who need it most.

While various state-funded projects were implemented to close the gap in access to basic services between the urban and rural areas, important differences remain. Whereas 94% of urban households are connected to the drinking water system, the same applies to only 36% of rural households. The maternal mortality rate is 187 out of 1000 in urban areas, whereas this figure reaches 267 in the rural areas. While the government is addressing this regional imbalance, women still are clearly disadvantaged. Whereas the literacy rate for men was 70% in 2007, it was only 45% among women. In 2006, the government enhanced women's legal standing by passing a law allowing the children of a Moroccan woman and a non-Moroccan citizen to have Moroccan citizenship.

Equal opportunity

11 | Economic Performance

Following the paltry economic performance in 2005, mainly due to drought, Morocco's GDP growth rate, thanks to abundant rainfall, was 7.8% in 2006. Drought again led to a disappointing 2.31% growth rate in 2007. The estimate for 2008 is 5.3%. While GDP growth is still overly dependent on rainfall, a steadily increasing non-agricultural GDP growth rate is evidence that this dependence is waning. In 2007, the non-agricultural GDP growth rate reached 6.6%, according to the IMF. Tax revenues jumped 20% between 2006 and 2007. The unemployment rate stood at 9.8% in 2007. Rising tourism receipts, worker remittances and foreign investment, especially from the Gulf states, contributed to Morocco's economic dynamism.

Output strength

12 | Sustainability

Morocco's rank in the Environmental Performance Index compiled by the Yale Center for Environmental Law and Policy shows a score of 72.1 for 2008. Although an improvement from past years, this is still below Morocco's income group average. A close look shows that Morocco is mainly lagging behind on water quality and misuse and on biodiversity conservation. According to the Moroccan authorities, 92% of Morocco's territory is threatened by desertification. A study by the World Bank estimates that in 2003 the economic loss due to environmental degradation was 13 billion dirhams, equivalent to 3.5% of the GDP. The Moroccan authorities have stepped up their reforestation efforts. In 2006, 33,000 hectares were reforested, up from 20,000 hectares in 2000. This is still considered insufficient relative to the twin challenges of desertification and economic growth.

Environmental policy

Public expenditure on education represented a hefty yearly average of 6.7% of GDP in the period from 2002 to 2005. Yet, the World Economic Forum's Competitiveness ranking mentioned the low quality of education in Morocco as a reason for the country sliding in its competitiveness index from position 64 to 73. R&D spending remained very low at 0.6 % of GDP during the period between 2002 and 2005. Educational policy has mostly been driven by ulterior political motives instead of by a real desire to make the educational system more effective. The fact that teachers and students have traditionally supported the opposition has made the regime unresponsive to their demands. Most of the government's expenditure for education goes into wages. Very little money is directed toward investment.

Education policy /
R&D

Transformation Management

I. Level of Difficulty

GDP per capita, measured in terms of purchasing power parity, stood at \$4,300 in 2007. According to government data, absolute poverty has been reduced from 14.2% in 2004 to 9% in 2006-2007. While still high, structural constraints seem to have been reduced. Spending on education by the state, though still insufficient, has increased, and the general economic situation during the period under study has improved. Between 2007 and 2009 many demonstrations took place against the state's economic shortcomings and social deficiencies. This can be interpreted as a signal of a maturing citizenry.

Structural
constraints

The Moroccan civil society is one of the most active in the Middle East and North Africa region. The latest figures indicate the existence of more than 30,000 NGOs in the country. Their work covers a vast array of areas, such as women's rights, children's rights, and microfinance. Human rights organizations continue to play a central role in the public sphere. Their work has widened to encompass economic rights as more and more citizens mobilize against the rise in water, electricity and basic food prices.

Civil society
traditions

The Western Sahara conflict and the demands for independence from a portion of the Sahraouis living in the Morocco-controlled territories remain the biggest sources of tension. Human Rights Watch has recently criticized Morocco for its treatment of Sahraoui militants. Apart from that, there are no major religious or ethnic cleavages. The Moroccan government has made efforts to accommodate the cultural demands of Amazigh (Berber) activists, notably by the creation of a regime-sanctioned institute, the Royal Institute for Amazigh Culture. The debate about Amazigh culture seemed to abate during the period from 2007 to 2009. Three terrorist attacks occurred in 2007, though not of the magnitude of the 16 May 2003 attacks in Casablanca that claimed 42 lives. The more recent attacks testify to the existence of Jihadist groups in Morocco, which choose violence to advance their religious and political views.

Conflict intensity

II. Management Performance

14 | Steering Capability

The Moroccan political leadership has continued pursuing economic and societal modernization while putting the brakes on political liberalization. This approach appears to be self-defeating. The partiality of the judicial system and the predatory behavior of the king's businesses' are impediments to economic modernization. The vocal chorus in favor of political liberalization poses a direct challenge to the monarchy, which has tried hard to repress dissident voices. The monarchy's doublespeak about the necessity of fostering democracy while acting to the contrary is straining Moroccan society. Muhammad VI staked his regime's reputation in the West on his promise to democratize the country's institutions. His failure to do so will become increasingly untenable as the premium attached to cooperation in fighting terrorism fades.

Prioritization

The government has achieved some success in confronting economic problems. Better rainfall than in the 1990s and a sharp increase in workers' remittances contributed to reducing poverty and modernizing the economy. The absence of reform in the judiciary has somewhat dampened the benefits of the landmark reform of the family code passed in 2003. With regard to politics, the low turnout registered during the 2007 legislative elections only exposed the vacuity of having a parliament with no meaningful prerogatives.

Implementation

The negative attitude (if not outright repression) toward those who criticize the monarchy's policies betrays a lack of willingness to learn and adapt. Despite rising criticism and unease from political and business actors, the monarchy has persisted in supporting the predatory behavior of the private businesses connected to it. While not formally rigged, the 2007 legislative elections were grossly gerrymandered. There is no serious attempt to authorize the banned and peaceful Islamist Justice and Charity Organization (JCO). Press freedom violations only worsened during the last years despite national and international condemnation. Finally, there is no willingness to initiate the most important political reform of all, namely a comprehensive constitutional reform.

Policy learning

15 | Resource Efficiency

Political factors remain the main impediments to a better use of economic and human resources. By implementing an early retirement scheme, the government achieved some quantitative gains by reducing the wage bill to 10.6% of GDP. The policy has been heavily criticized, however, because the best-qualified civil servants, especially in the educational sector, took advantage of the new scheme and retired. This further lowered the quality of public service. Tax revenues increases of 26% on average since 2005 have allowed Morocco to absorb the rise in subsidies resulting from the increase in international oil and food prices. As a result, the budget was almost balanced in 2007. Public debts were reduced in 2007 to the more manageable level of 52% of GDP. The government has yet to figure out how to reform the subsidies system. The current system is inefficient, primarily because it does not target those who need it most. The Open Budget Initiative, an international NGO program that ranks countries on their level of budgetary transparency, gave Morocco a poor 27% score (100% being the maximum), on the grounds that the budgetary process provides scant information to the public. Certain parts of the budget, like defense and the public resources devoted to the king's expenses, are not even discussed in parliament. Auditing is also poor. The appointment of civil servants is more based on political loyalty than on competence.

Efficient use of assets

After the 2007 legislative elections, the king appointed Abbas al-Fassi, the secretary general of the Istiqlal (Independence) party, as the new prime minister. The king handpicked the cabinet members from the coalition parties in parliament. This gave the royal cabinet – the true locus of power – an obedient government cabinet to implement its policies. Opaque and at times clumsy, the royal cabinet has made some major missteps. In November 2008, it announced that Morocco was lifting its reservations on the Convention on Elimination of all Forms of Discrimination Against Women, only to backtrack two days later as criticism mounted. Failure to carefully assess the impact of this momentous decision, which involves sensitive religious issues, led to a messy and badly coordinated policy process.

Policy coordination

Corruption remains pervasive. Businessmen who were asked to assess Morocco's economic competitiveness cited corruption as their major concern. The size of the informal sector and the lack of law enforcement against corruption are among the main reasons why the current level of corruption is so high. The government advertised figures showing an increase in the number of corruption cases it has prosecuted. These prosecutions concerned only low to mid-ranking civil servants. High-ranking officials are immune from prosecution. The media that dared to investigate corruption cases involving high-ranking officials were silenced. Whistleblowers in the army who exposed the corrupted behavior of higher-ranking officers were prosecuted and handed heavy jail sentences.

Anti-corruption policy

16 | Consensus-Building

Morocco's major political actors agree on the establishment of a market-oriented economy. Some political actors, however, have begun to question the unethical economic involvement of private interests connected to the monarchy. The low turnout of the 2007 legislative elections reignited the debate over constitutional reforms. Intense internal debate continues inside the main political parties, especially the Socialist party (USFP) and the Islamist Party of Justice and Development (PJD), over the necessity of confronting the monarchy on the constitutional reform issue. While using the rhetoric of democracy, the monarchy has turned a deaf ear to these debates.

Consensus on goals

Political reformers in Morocco definitely do not occupy positions of power. While pro-democracy actors welcomed the enthronement of Muhammad VI as an opportunity to credibly tackle political liberalization, the monarchy's subsequent attitude and actions dashed their expectations. During the first years of his reign, speculations abounded that conservative groups inherited from the Hassan II era were constraining the liberal instincts of the new king. This line of argument is fading away as Muhammad VI appears more assertive. He has replaced most of the security apparatus' high-ranking officers with a new breed of functionaries more loyal to him. The monarchy's unwillingness to democratize seems more deliberate.

Anti-democratic
veto actors

Morocco's proposed autonomy plan for the Western Sahara to a certain extent recognizes some of the separatists' grievances. However, whatever good faith this plan might contain has been completely nullified by the human rights abuses perpetrated by the Moroccan authorities in the region and by the more general lack of liberalizing political reforms. The continuing banning of the Islamist Justice and Charity Organization (JCO) is another important signal of the regime's intolerance toward non-conforming political actors. Amazigh demands remain largely confined to cultural representation, but have not translated into a meaningful political movement so far.

Cleavage /
conflict
management

The political leadership's attitude toward civil society's political participation remains weak and indefinite and is marked by its intolerance of dissenting opinions. Civil society's interventions into the political sphere are welcomed as long as they follow the official line. Divergent opinions are oppressed and find no reflection in the mainstream media, which is controlled either by the state or by wealthy businessmen with close relations to the regime. NGOs representing Sahraoui militants are harassed, as are NGOs close to the Islamist Justice and Charity Organization (JCO). The independent media face constant judicial harassment. The financial control exerted by the Muhammad V Foundation renders much of civil society subservient to the regime's political goals.

Civil society
participation

In January 2004, the king set up the Equity and Reconciliation Commission to address human rights abuses that took place prior to 1999. The commission studied 16,000 cases and decided to compensate 9,779 victims. The commission's work was criticized on several main accounts. The commission failed to address the abuses perpetrated in the Western Sahara, it did not name the perpetrators of the abuses, and its denunciation of the security apparatus' lack of cooperation in its investigation carried no consequences. According to Amnesty International and Human Rights Watch, during the time the commission was working, the regime was torturing Islamist militants in a secret prison near the capital Rabat.

Reconciliation

17 | International Cooperation

In August 2007, the U.S. government awarded Morocco the biggest aid package ever awarded through the Millennium Challenge Corporation (MCC), \$697.5 million over five years. The Bush administration rewarded Morocco with the MCC aid despite its failure to meet the political freedom standards on which the grant is supposed to be conditioned. The U.S. administration's decision rewarded a Middle Eastern Muslim country that was obediently cooperating in the so-called war on terror. The U.S. aid package is targeted toward well-defined projects. In October 2008, the European Union granted Morocco advanced status on deepening ties and cooperation in the framework of its neighborhood policy and its newly induced Union of the Mediterranean. This advanced status shows – at least according to the official verdicts – the European Union's confidence in Morocco's intention and ability to make economic and political progress. In reality, this advanced status designation is simply recognition of Morocco's efforts in thwarting illegal migration and drug trafficking into European countries.

Effective use of support

Realpolitik benefits Morocco's political leadership to a great extent. Governments of major Western countries are staunch allies of the Moroccan political leadership. The Bush administration and some EU countries, France and Spain in particular, tone down their pro-human rights rhetoric when it comes to Morocco. The Moroccan regime has been a devoted and reliable ally of the West, especially on issues of security. Mohammed Binyame, a British citizen of Ethiopian origins, has accused Morocco's secret services of having savagely tortured him. Various reports attest to the credibility of the accusation. Binyame was a victim of the rendition program initiated by the U.S. government to send terrorism suspects to be interrogated in foreign countries. The country's international reputation remains bogged down by the Western Sahara conflict. In the fall of 2008, Human Rights Watch published a scathing report on Morocco's record in the Western Sahara. Transparency International remains critical of Morocco's unwillingness to apply the U.N. standard to fight corruption.

Credibility

Moroccan foreign policy has been characterized by a prioritization of economics over international politics. Morocco is not very active in regional politics. Still clinging to the Al-Quds Committee chairmanship, Morocco has not organized any meaningful meeting despite tension in the conflict between Israel and the Palestinian territories. Morocco's leadership has been particularly ineffective. Since its withdrawal from the then Organization of African Union in 1984, resulting from its military invention of Western Sahara, Morocco has been largely marginalized by other African nations and is still not a member of the African Union. Two major African states, South Africa and Algeria, are sympathetic to the Western Sahara demands for independence and therefore act as a counterweight to Morocco's diplomacy.

Regional
cooperation

Strategic Outlook

The persistence of Moroccan authoritarianism is the result of two sets of reasons, one internal and one external. The monarchy maintains its dominance of the political landscape because other political actors perceived it as the cornerstone of the Moroccan political equilibrium. More precisely, each actor believes that it would lose out if this equilibrium were upset, thus creating a quasi-consensus on the necessity of an authoritarian monarchy. Some among the westernized elites and upper middle class accept the idea that an electoral process devoid of manipulations (gerrymandering, etc.) combined with a constitutionally empowered parliament would be dangerous, because it would allow the Islamists to capture the state and maybe renege on democracy. The Islamists fear that anxiety among the secular elites in Morocco and the West provoked by excessive weakening of the monarchy might lead to a military coup led by a staunch secular military strongman and supported by the secular elites and the West, which would ruthlessly clamp down on them. In the eyes of Islamists, the monarchy at least preserves the centrality of a socially conservative type of Islam, Malekism. The external reasons for persistence of Moroccan authoritarianism mirror the Moroccan secular elite's argument favoring the current monarchy. Western interests are better served with a non-democratic, but compliant and even fairly socially liberal regime. This equilibrium unravels when economic, social and political tensions reach an unbearable point. Any transformation of political power in Morocco would contain the danger that all current actors might get wiped out by an unforeseen emerging new actor. Radical Islamists are just one possible scenario, a military coup followed by a repressive junta regime is another – not to speak of the outbreak of destructive anarchy.

There are signs, however, that Morocco's political equilibrium is increasingly unstable. Moroccan citizens do not voice their demands through classical social intermediaries like political parties, unions and well-established NGOs, but spontaneously organize demonstrations or riots. The low turnout in the 2007 legislative elections is a glaring indication of the population's withdrawal from democratic participation, which increasingly undermines the main political players and weakens the state itself. While the economy improved on the whole between 2007 and 2009, the level of social contestation indicates rapidly rising discontent and a growing sense of inequality among sizeable portions of the population. The least costly escape from the de-politicization trap would be the monarchy's embrace and promotion of democratic ideals. This is unlikely to happen. The power elite in Morocco remains attached to the convenient economy first paradigm. The monarchy has benefited from the relative quietism of the two main poles of Moroccan politics. If these two poles, the Islamists and the progressive left, decided to adopt a more confrontational tone in their demands for constitutional reform, more freedom of expression and the press, as well as less nepotism in the economic sector, the monarchy's reformist image will be hard to sustain. International actors might also become less oblivious to the regime's democratic failures.