FP Foreign Policy

The Moroccan Model?

Morocco has a chance to become a regional leader on economic reform. But it still has a way to go.

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If the premise that all happy families are alike, whereas unhappy ones are each unhappy in their own way explains the world of *Anna Karenina*, then the reverse is certainly true for the Arab Spring countries. Throughout the region, economies are struggling with the same problems: the politically explosive issue of bloated subsidy programs, red tape, corruption, and policy uncertainty in the private sector and foreign sector development -- with little consensus on the right way forward.

In such circumstances, finding examples worthy of emulation is of paramount importance. Cue Morocco, which former Secretary of State Hilary Clinton has singled out as a "leader and model" for King Mohammed VI's handling of the state's political transition. In the words of Mohamed Tamaldou, president of the Network of Arab Liberals, "Morocco was one of the first Arab countries where opposition acceded to power through normal political procedures." There are hopes that the country will be the first Arab nation to transition towards a European-style constitutional monarchy, with the King playing only a very limited role, yet providing a sense of political continuity in a region rife with instability.

More so than other (relatively) positive examples like Tunisia, Morocco has received attention for being "traditionally oriented to the West and [having] a long experience with a market economy, albeit often of the cronyist variety," explains Nouh el-Harmouzi, a lecturer in economics at Ibn Tofail University and Morocco's first "free market activist."

In the 1990s, when Mohammed VI took the throne, the country saw various political and economic reforms. Many political prisoners were freed, state-owned companies were privatized, and the economy opened to foreign trade and investment. In 2012, the Economist Intelligence Unit ranked Morocco 66th worldwide, above both Jordan and Russia, in its "where-to-be-born" index, aggregating measures that are related to life satisfaction around the world. A 2013 ranking by the World Economic Forum, assessing of the competitiveness of economies around the world, classified Morocco as the best performer in North Africa and better than Slovakia, Montenegro, and Romania.

The country's economy has been growing steadily even in the aftermath of the Arab Spring with a growth rate of 4.9 percent in 2011 and 2.9 percent in 2012. Poverty rates in the country are fairly low and falling -- from around 16 percent in 1999 to less than 9 percent in 2009.

Yet, on a closer inspection, excessive optimism seems unwarranted. In the same speech where Clinton praised Morocco's governance, she warned against the dangers of its high unemployment amongst young people.

Education makes the problem worse, not better. Those with the highest level of educational achievement face an unemployment rate of 19.4 percent compared to only 4 percent for individuals with no degrees -- hence the large number of *diplômés chômeurs*, as they are know in the country. Because of low rates of labor participation, particularly among women, the official unemployment figures underestimate how many people are out of work. As elsewhere, bad institutions and policies are to blame. The country has seen 80 self-immolations since February 2011, as acts of protest by unemployed graduates or vendors harassed by local authorities.

Just as in Egypt, Tunisia, etc., the fiscal problem is driven primarily by subsidies to consumer goods (fuels and food) which represent 15 percent of total public spending and have almost doubled in absolute terms since 2010, as the government tries to contain the civil unrest through more generous spending on subsidies and public-sector salaries. The governing party, the Justice and Development Party (PJD), has realized the unsustainability of continued subsidies, and following the advice of the IMF, it proposed a reform that would reduce subsidies while cushioning the blow to the 2 million poorest households with cash transfers.

The reform won't eliminate subsidies completely. It will limit them by stabilizing consumer prices within a certain range but allowing for price increases or decreases whenever the international prices rise or fall above the set boundaries. The reform, which is now officially scheduled after Ramadan, would be less radical than the proposals by economists and organizations like the IMF to phase out of subsidies, while introducing direct transfers to poor households. Still, with 20 percent savings to the subsidy bill in 2013, it would be certainly preferable to the status quo.

But since late May, even this modest reform is in jeopardy after the junior coalition partner, the nationalist Istiqlal party, announced that it would not support the effort and that its ministers would leave the Cabinet in protest. In a grand display of political posturing, an Istiqlal spokesperson, Adil Benhamza used the opportunity to proclaim that the "PJD wants to raise prices and hit the poorest, while we prefer to pick up some billions which are at the hands of speculators by controlling imports."

As compassionately as their declaration was surely meant, one would be hard pressed to find a subsidy system that does not lead to leakages to the black market and waste. "A possible interpretation of Istiqlal's resistance to subsidy reform is that the compensatory payments would make the reform popular, further increasing PJD's electoral advantage," offered Harmouzi.

In any event, things have taken a somewhat bizarre turn when, after a phone call from the king, the Istiqlal ministers decided to stay in the government until Mohammed VI returns from his somewhat mysterious extended vacation in Paris. On July 9, 2013, several weeks after the monarch's return, and after the government proceeded with the reform initiative, Istiqlal ministers went ahead to announce that they will tender their resignation. If accepted by the king, the prime minister will either have to find a new political partner or call an early election.

The country's political liberalization seems a bit sketchy if one takes into account the enormous influence the king and his entourage have on the day-to-day conduct of public affairs -- a far cry from the touted constitutional monarchy -- or the treatment of the Sahrawi people in the Western Sahara. On the Fraser Institute's index of Economic Freedom of the World, Morocco is faulted for its red tape burden, its capital controls, and regulations on hiring and firing practices. Morocco also performs poorly in several areas of World Bank's Doing Business index. That's hardly a way to attract investors or spur domestic entrepreneurship.

The country is among the worst in the world on the measure of ease of registering property -- partly because of its arcane tax system. Completing a transfer of property in the country takes 75 days and costs 5.9 percent of the property's value. This year, the property registration fees have increased, making property registration in Morocco more difficult than in India, Angola, and even the Central African Republic.

It should be encouraging that the reforms needed to make Morocco a good place to do business are relatively painless to implement. The country has traditionally been welcoming of foreign investors and has several free trade zones -- notably in Tangier, which is also an offshore banking center. To help foreign investors navigate the country's opaque bureaucracy, the government runs Regional Investment Centers, which serve as one-stop shops for foreign investors.

But with rising public debt (currently around 71 percent of GDP), a substantial budget deficit (8.2 percent of GDP), high youth unemployment (17.9 percent), 30 percent of Moroccans illiterate, and very low economic participation by women, Morocco has a long way to go towards being an economic success story.

The government has therefore a lot to build on to further improve the business environment with the potential of turning the Moroccan economy into the region's premier destination for foreign investors. The economic effects of liberalization of capital flows, a reform of the financial system, and other "structural reforms" would be substantial. According toIMF estimates, such reforms could easily add up to 2.5 percentage points to the economy's annual growth rates.

This would be beneficial not just to the Moroccans but also serve as a model to reformers elsewhere in the region that suffer from the inability to push through liberalizing reforms in an effort to maintain their constituents' support. The battle for sound economic and political institutions in the Arab world can only be won through the power of ideas. One success story in the region would go a long way.

Harmouzi remains an optimist: "I think the country can potentially serve as a model. There is some political will to do the needed reforms. And although we need to speed up, we're moving in the right direction."

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