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Morocco's Gradual Political and Economic Transition

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While its North African neighbors erupted in violent protests in January 2011, culminating in the overthrow of their authoritarian rulers, Morocco has navigated its way out of the storm of the so-called Arab Spring without significant political upheaval or damage to its economy. This is surprising, since Morocco at the time was hardly a bastion of democracy, instead ruled by King Mohammed VI, a strong monarch with almost complete control of the political space. Furthermore, Morocco was plagued by the same economic problems as Egypt and Tunisia, with one in three young Moroccans unemployed, rising food and fuel prices, widening income and wealth inequalities, high poverty rates, and slowdowns in tourism and remittances due to the economic crisis in Europe.[1]

There are three main, interrelated factors that allowed Morocco to avoid the dramatic political and economic fallout of the Arab Spring. First, King Mohammed VI—unlike Zine El-Abidine Ben Ali in Tunisia, Hosni Mubarak in Egypt, and Muammar Qaddafi in Libya—has considerable legitimacy in the eyes of the population because of his lineage, which can be traced back at least three centuries.[2] This gave him substantial public support, even as Moroccans criticized the policies of his government. Second, the Moroccan ruler and his advisers were ahead of the curve in announcing a process of gradual political reform to pacify protestors who took to the streets in February 2011. Finally, the King and his government moved quickly to draw up an economic plan, with the support of the International Monetary Fund (IMF), to offset the effects of the domestic and external shocks that Morocco was facing. Specifically, this plan involved policies to improve the public finances, contain inflation, and reverse the worsening external imbalances.

1 Mohsin Khan and Svetlana Milbert, "Turmoil in the Arab World: How Has Morocco Fared?" *MENASource* (blog), January 25, 2013, http://www.atlanticcouncil.org/blogs/menasource/turmoil-in-the-arab-world-how-has-morocco-fared.

2 *Almanach.Be*, http://www.usa-morocco.org/alaoui.htm.

Rafik Hariri Center for the Middle East

The Rafik Hariri Center for the Middle East at the Atlantic Council studies political transitions and economic conditions in Arab countries and recommends US and European policies to encourage constructive change.

Political Developments and Policies Since 2011

Like many countries in the Middle East and North Africa, Morocco experienced its share of protests and rioting in February 2011 as popular uprisings swept through the region.[3] Demonstrators, who at their peak numbered in the tens of thousands and included young liberals, women, and some Islamist groups, coalesced in what became known as the February 20 Movement. Whereas other authoritarian regimes in the region were unwilling to engage in dialogue, and instead responded with brute force against unarmed demonstrators, the Moroccan authorities' calculated approach resulted in significantly different outcomes for the country.

The Moroccan monarchy acted swiftly and effectively, announcing a series of reforms the country would

3 It is interesting to note that the death of the Tunisian street vendor Mohammed Bouazizi sparked revolutions in Tunisia, Egypt, and Libya, and yet the self-immolation of twenty men in Morocco did not. "Broken Dreams? Self-Immolation Continues in the Arab World amid Economic Difficulty," *Al Arabiya News*, January 21, 2012, http://www.alarabiya.net/articles/2012/01/21/189638.html.

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undertake in order to advance a process to bring about positive political change—one that, according to the leadership's narrative, had begun a few years earlier. The process of progressive reforms was designed to address two primary goals: putting an end to the abuses committed against political opponents under King Hassan II (the current ruler's father) and improving the status of women within both the family and society. The first was achieved through the creation of the Equity and Reconciliation Commission, whereby the King allowed the country to take a crucial step toward national reconciliation between the monarchy and those persecuted unjustly under the previous ruler. The commission ascertained whether abuses were committed and accordingly dispensed financial compensation to the victims. On the other front, the main reform was that of the family code *(mudawana)*. The provisions were designed to achieve equity and balance between spouses in family affairs, including allowing women the same rights to petition for divorce.

Despite these promising steps, officials had not addressed modifying policies that would disrupt the core of the political system, and this was the issue around which the protesters of the February 20 Movement rallied. As part of his reforms King Mohammad VI announced the formation of a committee to revise the constitution in order to provide more powers to the elected government and its institutions. Even this, however, was not proposed as a potential answer to citizens' current grievances. Rather, by characterizing these reforms as part of a continuum, the King stressed that he was not bowing to pressures from the street but was simply completing a longstanding process he himself strongly wanted and had initiated.

Most of the proposed changes to the constitution address the endemic problem of transferring significant political powers from the monarchy to an elected parliament and empowering political parties and the government. Principal among these changes is that the King is bound to appoint as Prime Minister the leader of the winning coalition and not an individual of his own choice. Even though political power in Morocco remains largely concentrated in the hands of the monarchy, the proposed reforms do shift a fair amount of legislative power to the independent, elected parliament. Nevertheless, this change can only happen if laws to enact the constitutional provisions are passed. So far, however, this has only been done to a minimal extent.

The challenge here is to incentivize political parties to establish roots within the population and nurture communicative relationships with their constituents, rather than continue to engage in elite politics, in which they continuously defer to the palace and to the King on matters of policy. In other words, reforms will have little impact until political parties really have a stake in them, rather than simply paying lip service to them in order to curry favor with the real power brokers united around the King.

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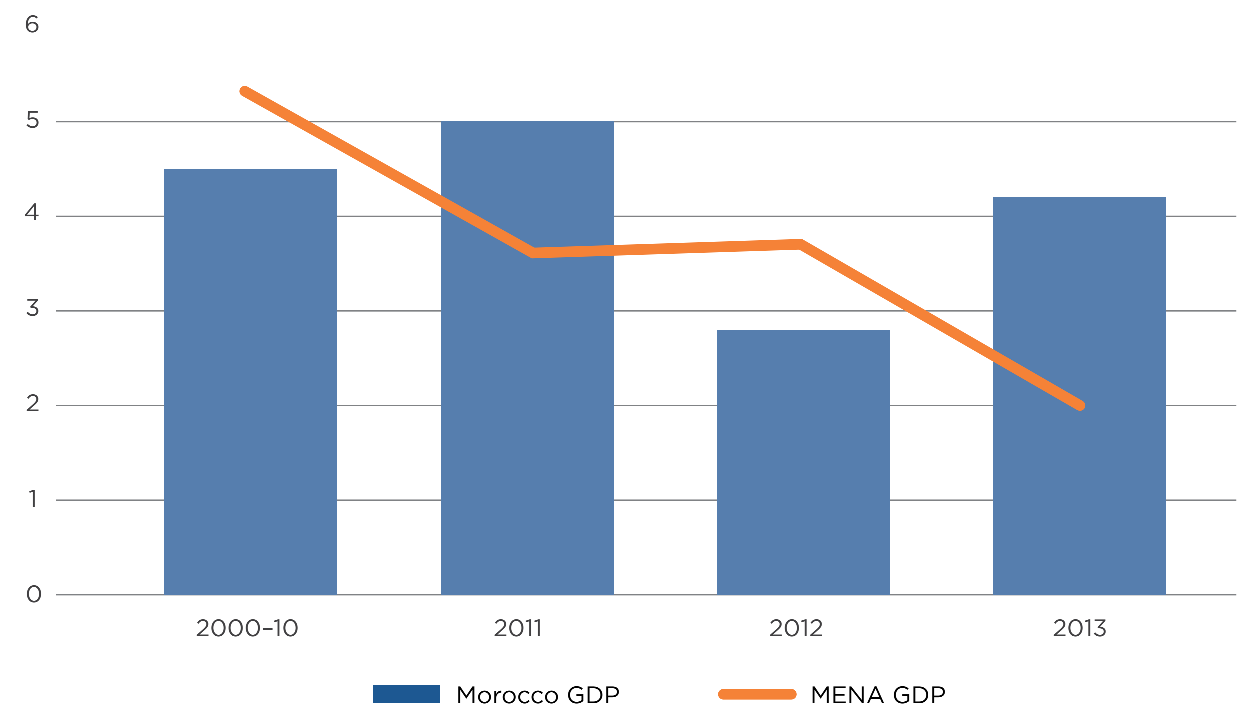
Despite these challenges, the tools deployed in the aftermath of the Arab Spring undoubtedly reflect that Morocco embodies what scholars define as "enlightened or competitive authoritarianism."[4] Although the monarchy retains most authority, it allows political actors some room to maneuver. The calculated manner in which reforms are implemented is a particular example of this principle. Despite the February 20 Movement's demand to elect a constituent assembly to revise the constitution, the King opted to appoint a committee of specialists to perform that role. This committee revealed its draft revisions, which were then modified and approved by the monarch before being put forth for a popular referendum. Moroccans overwhelmingly approved the reforms.

The King gained the upper hand through this process in three ways. First, by appointing individuals he favored, he exerted influence over the kinds of reforms the committee explored. Second, he framed this decision as one that promised to deliver more progressive reforms than a conservatively inclined elected constituent assembly, thereby positioning himself as more generous and open to change. And

[4] Mohammed Masbah, "Islamist and Secular Forces in Morocco," SWP, November 2014, http://www.swp-berlin.org/fileadmin/contents/products/comments/2014C51_msb.pdf.

CHART 1. Real GDP Growth: Morocco vs. MENA, 2000-13



Source: IMF, 2015.

third, by putting the constitution up for a popular referendum and exercising all of its influence, the monarchy forestalled any further protests by the February 20 Movement against its "authoritarianism." With the vast majority of the population throwing its support behind the intended reforms, the monarchy shielded itself from such accusations. It also cornered the demonstrators in a difficult position, as they could be painted as fringe elements if they demanded more or other reforms.

The elitist nature of Morocco's political system is also exemplified by the crisis that ensued when the conservative Istiqlal Party withdrew from the governing coalition that formed after the November 2011 parliamentary elections. The coalition was formed by the majority Islamist Justice and Development Party, along with three secular parties—Istiqlal, the Popular Movement, and the Party of Progress and Socialism. When Istiqlal decided to withdraw, the palace made a push for the National Rally of Independence to take its place. This party—a highly nonideological one comprising businessmen and formed by royal advisers, and therefore closely affiliated with the monarchy—entered the coalition with the Islamists. As a result, the monarchy ensured that it maintained some power and influence over the legislature.

Developments over the last few years reveal how carefully Morocco managed the popular uprisings within its borders. By integrating political reforms (albeit modest and possibly unsubstantial ones) into a larger framework of less sensitive, pre-existing social reforms, authorities staved off citizens' push for bigger and bolder changes. The monarchy evidently managed to assuage political grievances just enough to avoid a crisis, without conceding too much power.

Economic Developments and Policies Since 2011

The Moroccan economy was doing reasonably well prior to the popular uprisings in North Africa in early 2011. Over the previous decade, real GDP had grown at a respectable annual average rate of 4.6 percent, which was not much lower than the average growth rate experienced by Middle East and North African (MENA) countries (chart 1).

Inflation was kept low at an average rate of less than 2 percent a year, one of the lowest rates in the MENA region over the same period. The country did not face serious external or fiscal imbalances, and even though the current account (trade in goods and services) balance was in deficit, inflows of foreign direct investments (FDI) and portfolio capital allowed the country to build up its international reserves to $23.6 billion by the end of 2010.

In 2011, Morocco experienced political and social tensions similar to those in other transitioning Arab countries, while dealing with the spillover effects of the economic crisis in Europe.[5] Nevertheless, real GDP grew by 5 percent in 2011, a rate higher than those of Morocco's North African neighbors or the rest of the MENA region (chart 1).[6] One key reason that growth was sustained in 2011, even in the face of the twin negative shocks of the domestic political upheaval and the eurozone crisis, was because agriculture benefitted from good weather conditions and grew by 5.6 percent.[7]

The economic picture worsened in 2012, as growth fell to 2.7 percent. Part of the reason was that agricultural production fell by 9 percent due to a severe drought, but continuing political uncertainties also played a significant role. While inflation was still contained, the external and fiscal imbalances remained high. The current account deficit shot up to nearly 10 percent of GDP, a result of the combined fall of more than $1 billion in tourist receipts and workers' remittances. By the end of 2012, the country had lost $6 billion of its international reserves, or about one quarter of its holdings at the beginning of 2011.

There was a distinct improvement in the economic outlook in 2013, with growth once again reaching 4.4 percent. Improved weather conditions led to a bumper harvest, and agricultural real GDP increased by nearly 20 percent. The nonagricultural sector, however, grew by only 2 percent, reflecting the lingering negative effects of the European crisis, as well as ongoing domestic political tensions. Tourism and workers' remittances grew modestly, but there was a significant inflow of $3 billion in new FDI.[8]

However, these relatively favorable macroeconomic developments over the past three years masked some major fault lines in the Moroccan economy that were also present in other transitioning countries. These include high rates of unemployment (particularly youth unemployment), large income and wealth inequalities (both overall and between urban and rural populations), high poverty rates in rural areas, and a growing informal economy. These economic grievances were a critical factor in Moroccans taking to the streets in 2011, and they have continued to fester.

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Unemployment is a major issue in Morocco. The official unemployment rate is above 9 percent, and youth unemployment is twice that (chart 2). Adding in the underemployed, unofficial estimates place youth unemployment at about 30 percent.[9] The IMF has estimated that Morocco must grow by 4 percent a year simply to absorb new entrants into the labor force and keep unemployment at its current rate.[10] To actually make a significant dent in the unemployment rate, sustained growth of 6-7 percent a year would be required.[11] Absent sufficient jobs in the formal economy, Moroccans have been forced into the informal economy, which has grown steadily over time and is estimated now to be nearly one-half the size of the official GDP. By comparison, the informal economy in Tunisia is estimated to be about one-third the size of its GDP, and in Egypt it is close to 40 percent.[12]

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5 The Moroccan economy is very closely tied to the European economy. The European Union accounts for 65 percent of Moroccan exports, 70 percent of the tourists visiting the country, and 75 percent of workers' remittances. It is estimated that a 1 percent decline in European growth worsens Morocco's balance of payments by 1.2 percent of GDP, and lowers its growth rate by 0.6 percent. See Khan and Milbert, "Turmoil in the Arab World: How Has Morocco Fared?."

6 Real GDP in Egypt grew by less than 2 percent in 2011; in Tunisia it fell by 2 percent. In Libya, real GDP fell by a staggering 60 percent. See Mohsin Khan, "The Economic Consequences of the Arab Spring," Atlantic Council, February 2014, http://www.atlanticcouncil.org/images/publications/The_Economic_Consequences_of_the_Arab_Spring.pdf.

7 Although it represents only 15-20 percent of total GDP, agriculture is the main livelihood of 45 percent of the population living in rural areas.

8 FDI has averaged about $2 billion a year since 2008. A number of international companies operate in Morocco, including Renault, Dell, General Electric, and Lear. See Oxford Business Group, *The Report: Morocco 2014*.

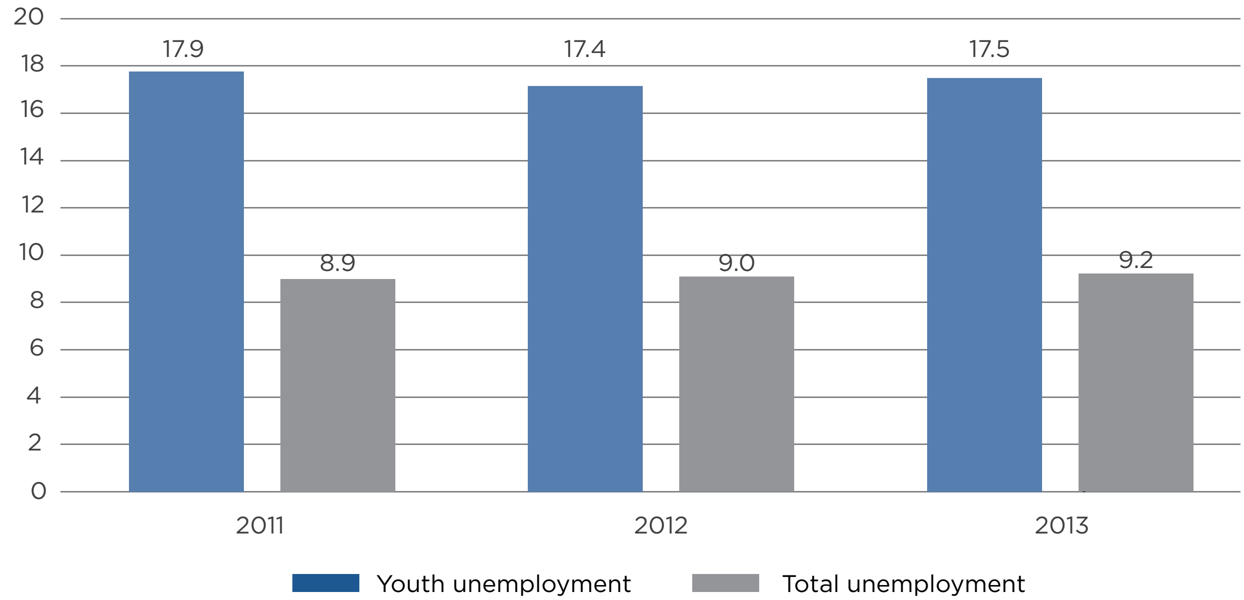
9 Paul Schemm, "Morocco's Unemployed March to Demand Jobs," Associated Press, October 6, 2013, http://bigstory.ap.org/article/moroccos-unemployed-march-demand-jobs.

10 IMF, *Morocco: 2013 Article IV Consultation-Staff Report*, March 2014, http://www.imf.org/external/pubs/ft/scr/2014/cr1465.pdf.

11 Hassan Benmehdi, "Urgent Call for Youth Employment in Morocco," *Magharebia*, October 7, 2014, http://magharebia.com/en_GB/articles/awi/features/2014/10/07/feature-03.

12 IMF, *Morocco: 2013 Article IV Consultation-Staff Report*, March 2014, http://www.imf.org/external/pubs/ft/scr/2014/cr1465.pdf.

CHART 2. Morocco: Unemployment, 2011-13 (percent of total labor force)



Source: IMF, 2015.

In order to generate higher growth to create jobs, Morocco has recognized that it would need to institute a wide array of deep structural and institutional reforms and attract substantial amounts of external financing. To send a positive signal to potential foreign investors and the international capital markets, Morocco negotiated a program with the IMF, making it the first country in North Africa to do so. In August 2012 the IMF approved a $6.21 billion Precautionary and Liquidity Line (PLL) credit for Morocco for two years.

The availability of an IMF credit line was to reassure foreign lenders, investors, and rating agencies that Morocco had an economic plan that was endorsed by the international community. Indeed, this proved to be the case. The country successfully floated $1.5 billion in bonds in the international capital market in December 2012 and, in 2013, new FDI rose by more than $1 billion over the previous year.[13] Ultimately, Morocco did not need to utilize the credit line. After its expiration, a successor two-year credit line of $5 billion was approved on July 28, 2014, to provide insurance for the country to meet any unexpected financing needs.[14]

The policies that the government adopted in agreement with the IMF focused primarily on the gradual reduction of the fiscal deficit, specifically through slowly reforming the extensive system of subsidies; maintaining monetary stability to keep inflation low; and improving the balance-of-payments position by attracting FDI and by borrowing in the international capital markets. These policies, however, are mainly aimed at achieving macroeconomic stability and have yet to show any significant growth benefits. IMF and World Bank projections point to real GDP growth remaining more or less in line with the average annual growth rates observed between 2011 and 2013 (table 1). While somewhat higher than the projected growth rates for Egypt and Tunisia, these rates are still well below the 6-7 percent growth the country needs to generate sufficient new jobs and reduce unemployment.

13 It is worth noting that this was "greenfield" investments and did not involve privatization of state assets, as had been the case in the previous years. In addition, starting in 2013, Morocco's largest company, Societe Nationale d'Investissement (SNI)—in which the King's family holds a 60 percent stake—has been selling some of its large holdings to foreign companies, such as France's Danone and the US food company Kraft.

14 IMF, *Morocco: Request for an Arrangement under the Precautionary and Liquidity Line—Staff Report*, August 2014, http://www.imf.org/external/pubs/ft/scr/2014/cr14241.pdf.

TABLE 1. Morocco: Economic Growth Projections, 2014-15

Real GDP (% change)	**2014**	**2015**
IMF	2.9	4.4
World Bank	2.6	4.6

Source: IMF, World Bank.

Furthermore, Morocco is not viewed internationally as a business-friendly country, and it ranks relatively low on standard indicators of competitiveness (table 2). In the World Bank's *Doing Business 2015* report, Morocco ranked 71st out of 189 countries. Its ranking is below that of Tunisia (60) but well above Egypt (112). Among the twenty MENA countries included in the sample, Morocco ranked seventh, Tunisia fifth, and Egypt eleventh.

TABLE 2. Morocco's Competitiveness Rankings

Survey	**Rank**	**Total Number of Countries Surveyed**
World Bank's *Doing Business 2015* report	71	189
World Economic Forum's *Global Competitiveness Report 2014-2015*	72	144
Heritage Foundation's 2015 Index of Economic Freedom	89	178

Source: IMF, World Bank.

In the World Economic Forum's 2014 Global Competitiveness Index, Morocco placed 72nd out of the 144 countries surveyed.[15] It ranked relatively low on higher education and training (104) and labor market efficiency (111). In the Heritage Foundation's Index of Economic Freedom, Morocco's score put it 89th (out of 178 countries).[16] In the MENA region, Morocco was ninth out of the sixteen Middle Eastern countries evaluated, with Tunisia just below at eleventh and Egypt in the twelfth spot.

The Way Ahead for Political Reforms

While the February 20 Movement protests in Morocco have subsided, many strata of civil society continue to criticize the elite over the vacuous nature of pledged reforms and the slow pace of their passage and implementation. Some power has been distributed to political parties and the parliament, in order to make them more effective in exercising their policy-related duties. In reality, these moves have brought about very little change, due to the fact that the transfer of power is not accompanied by deeper structural amendments that make them relevant.

The currently discussed reforms require a comprehensive approach with changes in other, overlapping areas—especially the more technical ones, such as tax or judiciary reforms. Moreover, the palace has often stalled in applying reforms. This is true specifically in the realms of security and the economy, which would make the biggest dents in the monarchy's functions and capacity. Indeed, despite its new provisions, the constitution remains in many respects an aspirational document, as the King's power remains substantial and highly centralized. Among other spheres of influence, he heads the cabinet, maintains control of the military and the national security apparatus, and controls the mosques and most religious activities through his leadership of the ulema council.

While it is true that Morocco's elites benefit from the status quo, and may not be interested in or committed to reform, the King's professed commitment to change is an opportunity that can be seized upon by civil society actors and those in the political realm who are committed to the plan of progressive reforms. In order to build confidence with the broader public, assuage concerns about the slow pace of reforms, and get buy-in from the population about the pledged changes, Morocco's elites should move faster in addressing at least some of the following issues.

Human rights. Authorities should move more quickly to apply the bold human rights provisions presented in the 2011 constitution—such as those that allow citizens to challenge the constitutionality of existing laws—in order to demonstrate that the document actually carries weight within the political sphere.

Police and security. The arbitrary powers of the security forces should be curtailed, and individuals

15 Egypt and Tunisia ranked 119th and 87th, respectively.
16 Egypt was in 124th place, while Tunisia was in 107th.

accused of crimes should be afforded more rights in the course of arrest, detention, and investigation.

Freedom of the press. It is essential that the press code be revised in a way that gives more protection to journalists and other reporters. In particular, prison terms for speech offenses should be eliminated, and punitive fines should be capped so as not to excessively burden or force the shutdown of media outlets.

Citizens' participation. Public apathy toward politics in Morocco is mainly due to the perception that all powers are confined to the monarchy and that political parties have no real say. Elites should prioritize reversing this trend, which can be achieved by increasing the powers held by the government and its ministers, thus establishing the proper mechanisms by which political parties can actually respond to popular grievances. In his speech opening the current parliamentary session in November 2014, the King rather harshly expressed his frustration with the previous legislature's failure to enact some of the legislation needed to enable various reforms, and he demanded that it do so before the upcoming local elections.

An alternative route would be to create channels by which civil society is granted direct access to the palace in areas where the monarchy maintains the widest powers. This would in essence result in virtual competition between civil society and political parties for the ear of the King, and provide the necessary push for the political parties to more actively carry out their policy responsibilities and provide services to constituents.

Regionalization. The new constitution contains a highly innovative plan for decentralization, both administrative and political. This important process has yet to be implemented. But bringing authority and responsibility to the local level may address citizens' grievances and, in turn, could encourage greater participation over the long term.

The Way Ahead for Economic Reforms

In terms of economic development, Morocco aspires to reach the level of the lower-income southern European economies. Achieving that goal will require implementing a number of structural and institutional reforms to transform the economy into one that is more market oriented and diversified, and where the private sector plays the primary role. To start, however, the government should focus its reform efforts on improving public finances, reforming the labor market, and improving the business climate.

Improving public finances. The main area here is the reform of the subsidies system, because of the cost it imposes on the budget, as well as the distortions and inefficiencies it generates in the allocation of resources and production-consumption decisions.[17] In 2011, subsidies amounted to 6.1 percent of GDP. The government started to reform the system in 2012, raising fuel prices by 20 percent and alcoholic beverages by 43 percent. The announced aim of the government is to ultimately reduce the cost of the subsidies system to 3 percent of GDP by 2016. Introducing a system of indexing domestic fuel prices to world prices in September 2013 helped to reduce the subsidy bill to 4.8 percent of GDP from 6.6 percent in 2012. Further measures in 2014 included elimination of the subsidy for premium gasoline and industrial fuel, as well as for electricity generation. Although the progress to date is welcome, the government should move more aggressively by eliminating existing subsidies on diesel fuel and food—particularly in the current context of sharply lower world oil prices—and by compensating poorer households with targeted cash transfers.

DESPITE ITS NEW PROVISIONS, THE CONSTITUTION REMAINS IN MANY RESPECTS AN ASPIRATIONAL DOCUMENT, AS THE KING'S POWER REMAINS SUBSTANTIAL AND HIGHLY CENTRALIZED.

Labor market. The government has set a relatively modest goal of lowering the current unemployment rate of 9 percent to 8 percent by 2016. To achieve this target, it has instituted a wage subsidy program to assist unemployed graduates in securing internships, training, and access to an entrepreneurship program. However, these approaches are likely to have a limited impact on unemployment. The government should

17 The subsidy system, referred to as the "compensation system," benefits the entire population and covers basic items in the consumption basket, such as flour, sugar, fuel, and gas. Furthermore, these generalized subsidies disproportionately benefit higher-income groups. The government has estimated, through household surveys, that about 45 percent of food and fuel subsidies went to the top quintile of the population, while the lowest quintile received only 9 percent of all subsidies.

enact a new labor law that will make it easier to hire and fire workers. At present, the virtual guarantee of a permanent job constrains employers from hiring new workers because they cannot be fired. Morocco ranks 86th in the World Economic Forum's Global Competitiveness Index on hiring and firing practices, and the average redundancy costs are twenty-one weeks of salary. This is an important factor in the high rate of unemployment, as well as in the size and growth of the informal sector, where such regulations obviously do not apply.

THE GOVERNMENT SHOULD FOCUS ITS REFORM EFFORTS ON IMPROVING PUBLIC FINANCES, REFORMING THE LABOR MARKET, AND IMPROVING THE BUSINESS CLIMATE.

Business climate. Morocco has made a determined start to improve the country's business climate. Reforms in this area have been undertaken by a national committee chaired by the Prime Minister, and so far the results have been positive. For example, the country improved its ranking in the World Bank's Doing Business indicators from 114th in 2011 to 71st in 2014, largely owing to progress in the areas of starting a business, obtaining construction permits, paying taxes, and trading across borders. The government intends to continue to proceed in this area through the implementation of a new procurement law, as well as the strengthening of the Competition Council, which would improve antimonopoly regulations and domestic competition. It also intends to set up a national anticorruption agency.

Despite achievements to date and the announced plans, Morocco still needs to do far more in cutting government employment,[18] streamlining government bureaucracy, reducing bureaucratic regulations that hamper business investments and expansion, and reforming the judiciary to handle civil and corporate cases more speedily. In the long run, it is also essential to transform the education system. This way, Morocco can produce graduates with the requisite technical skills needed by the private sector to help the country move up in the value chain of production.

Conclusion

Morocco has managed to balance political and economic stability by moving gradually on both political and economic reforms. Of course, Morocco has a clear advantage over other North African countries in that pressure for political change did not escalate enough to force regime change, or become so pervasive as to make the ruler adopt more dramatic measures. The King had the luxury of time and could introduce political reforms at a speed of his choosing.

Therefore, given the relative political stability, the Moroccan government was able to move more rapidly on the economic front, and, as a result, the economy fared significantly better than those of Tunisia and other North African neighbors. Political upheaval has had significant negative consequences for the other countries. However, Morocco's implemented economic reforms have not completely borne fruit—particularly in terms of boosting economic growth to the 6-7 percent per year sustained rate needed to create sufficient jobs. Unless Morocco is able to do this, while addressing economic grievances, it is possible that the population will grow impatient, and further political upheaval may still occur in the future. For now, however, King Mohammed VI has the opportunity to show the rest of the Arab world that simultaneous political and economic reforms are feasible. This opportunity should not be wasted.

18 The public wage bill in Morocco is 13 percent of GDP, more than twice the average of MENA countries. The comparable figure for Egypt is 8 percent and for Tunisia it is 12 percent. It is not only the number of public-sector employees that is the problem, but also the higher wages paid by the public sector. These push up wages in the private sector, thus reducing the overall competitiveness of the economy.

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