

Morocco

Status Index (Democracy: 4.48 / Market economy: 4.75) 4.62		Management Index 4.77	
HDI	0.631	Population	30.6 mn
GDP per capita (\$, PPP)	4,004	Population growth¹	2.0 %
Unemployment rate³	11.9 %	Women in Parliament	6.4 %
UN Education Index	0.53	Poverty²	14.3 %
		Gini Index (1998)	39.5
Source: UNDP: Human Development Report 2005. Figures for 2003 unless otherwise indicated. ¹ Annual growth between 1975 and 2003. ² Population living below \$2 a day (1990- 2003). ³ Central Bank report 2004.			

A. Executive summary

Under Hassan II, the monarchy deftly used the geo-strategic rent accruing from its pro-western, anti-soviet approach to curb political opposition. It was also forced to embark on a program of economic reform to stem the social discontent that ultimately strengthened its political opponents. In the 1990s, piecemeal political reforms were designed to contain mounting international pressures and allowing some breathing room to an opposition that would otherwise have become increasingly radicalized. Mohammed VI is following on the same path, and has furthered reforms first initiated by his father.

The last 3 years witnessed more transparent (though still not completely devoid of regime's intervention) elections, the maintenance of a still-powerless parliament, the implementation of a truly modernizing reform on women's status, the devolution of important decision-making power to a corrupt and ultra-conservative judiciary and, finally, a reconciliation process with the victims of the darkest phases of Hassan II's reign which was tarnished by the substantial human rights abuses after the terrorist attacks in Casablanca in May 2003 that continue to go unpunished.

Departing from his father's decision to appoint an opposition figure to the post of prime minister in 1998, Mohammed VI has appointed a former minister close to the palace and lacking any political affiliation. The fragmentation of the parliament elected in 2002 as well as a sense of "urgency" in implementing economic reforms was advanced to justify this choice. The past three years have seen a major shift in the Moroccan regime's attitude toward the conflict over Western Sahara. The monarchy has officially repudiated any idea of referendum, as the result of such could conceivably lead to independence. However, in embracing a political solution - which necessitates that the regime negotiate with the Polisario to determine the degree of autonomy they will receive - the monarchy has de facto rendered constitutional reform more pressing. Retaining sovereignty in Western Sahara, while devolving meaningful powers to the

regional level, will mandate a more democratic constitutional design. In talks with the United Nations, Morocco proposed a “non-paper” document that essentially states that the monarchy will retain judicial powers in the Western Sahara. This proposition was quickly discarded by the Polisario, as there is no effective separation of powers in the Moroccan constitution.

During the observation period, Morocco was blessed with higher and steadier rainfalls than the past decade. Given the Moroccan economy’s high dependency on agriculture, average economic growth is higher than in the previous observation period. Foreign investments have substantially risen, thanks almost exclusively to two major privatization operations. However, rainfalls are unpredictable by nature and privatization revenues will ultimately subside.

The Moroccan private sector is not taking over as the driving force of the economy. The cash generated by the informal economy and remittances from Moroccan nationals abroad are not recycled in productive and legitimate business activity. Economic reforms to unleash entrepreneurial forces are stifled by a lack of confidence from Moroccan investors. The king’s substantial ownership of the private sector, the corrupt judiciary, as well as the regime’s nagging lack of , are all possible explanations for the business community’s lack of trust . Trade liberalization, mainly with the European Union and the United States, is endangering the domestic industrial sector. The results of the modernization of the Moroccan economy have yet to be seen. The plummet of textile exports in January 2005 because of the end of the quota regime that governs world trade in textile and clothing in December 2004 might be the harbinger even more difficult times for the export sector. Moreover, rising energy prices, with oil hovering above the \$50 per barrel, is exerting even more pressure on public finances.

B. History and characteristics of transformation

Morocco is struggling with problems rooted in political and economic strategies adopted four decades ago. The decade of the 1960s was characterized by a prudent development strategy in contrast to many newly independent nations. Instead of initiating a massive industrialization program financed by a transfer of wealth from the agricultural sector, Morocco opted for the development of the latter. An important share of public investment was directed toward agriculture. This policy was the direct consequence of the monarchy’s political reliance on rural constituencies. Morocco’s chosen path to growth had two pillars: liberalism and agricultural development.

However, the Moroccan strategy of development was not dissimilar of other developing countries on at least one respect: Tariff protection increases meant to develop import substitution industries. The combination of institutions favorable to private initiative and import restrictions was motivated by political considerations; namely the choice of economically benefiting the urban

bourgeoisie in exchange for its political support. The successive government pursued fiscal discipline and maintained the trade deficit at reasonable levels. The share of staple food products in imports remained low. The limited rate of investment was the downside of this policy. Public investment was limited to crucial domains only: education, housing, health and water infrastructure. Income inequalities increased substantially, especially in the rural areas.

Discontent materialized first in the 1965 riots in Casablanca and then in 1971 and 1972 when two coup attempts almost succeeded. Realizing how precarious its political stability really was, the monarchy shifted its economic strategy. To fend off discontent, the regime made three major decisions: The distribution of land from colonization, the “Morocconization” of businesses owned by foreigners and a dramatic expansion of the public sector. The land distribution bolstered political support in the rural areas and slowed the rural influx in the cities. The “Morocconization” benefited the Moroccan bourgeoisie. It also expanded the parastatal sector. This policy change was financed first by a boom in phosphate prices, a major Moroccan export, and then, after the collapse of phosphate prices, by foreign loans. Ultimately, the public debt reached unsustainable levels in the late 1970s.

After the regime failed to act, a crushing financing crisis obliged it to resort to borrowing from the IMF and the World Bank. Remarkably, the adoption of austerity measures produced the necessary economic adjustments without destabilizing the regime. Although part of the problem, the Western Sahara conflict was also part of the solution, since it cemented national unity. Another important factor was the substantial growth of immigrant worker remittances. The return to normal levels of rainfall after the excruciating drought of 1981 had a tremendous beneficial effect on the economy since half the population lived in rural areas at that time and agricultural incomes were less dependent on stabilization. Besides, a sizable informal sector was tolerated and it eased the pain of poor urban populations. The adhesion of Morocco to the GATT in 1987, the creation of the World Trade Organization in Marrakech in 1994 and talks on the free trade agreement with the European Union that were finally concluded in 1996 all marked the monarchy’s decisive embrace of globalization.

In that context it is not surprising that Hassan II appealed to the opposition - the nationalist party “Istiqlal” and the socialist party “USFP” - to join it and head an “alternation” government –a *gouvernement d’alternance*. The monarchy rightly perceived that socially painful decisions had to be made, e.g. the reduction in staple food subsidies and the external shock of trade liberalisation. Implicating the opposition would prevent it from politically using the discontent that these measures would generate. Hassan II managed the remarkable feat of bringing the opposition to the government with minimal concessions. In 1996, he passed a constitutional reform that did not really dent the monarchy’s powers. During the same period, Hassan II substantially improved the regime’s human rights record. Departing from the awful repression of the first three decades of his reign, he

amnestied the vast majority of political prisoners, closed down the Tazmamart jail and freed the prisoners who were held there incommunicado and in appalling sanitary conditions. He even initiated the process of compensating victims of human rights violations. Amazigh culture and language were recognized.

The 1990s witnessed the implementation of several economic reforms. A major privatization program was implemented. Modern laws were passed on the stock market and the banking industry. A major overhaul of the tax system was meant to simplify tax collection. Bookkeeping procedures were aligned to western European standards. The regime has adopted most of the required technical measures to update the economy's functioning. However, many features of patronage systems remained intact.

During the first three years of his reign, Mohammed VI built upon many of his father's initiatives. He made some important symbolic gestures by allowing long time dissident Abraham Serfaty, exiled by Hassan II, to return to Morocco. He also released the Justice and Charity group's leader, Abdeslam Yassine, who at the time was under house arrest. He also banned newspapers and kept the Islamist movement of Cheikh Yassine and its press banned. The fundamental governance structure remained unchanged from the era of Hassan II.

C. Assessment

1. Democracy

1.1. Stateness

The state's monopoly on the use of force covers the entire territory as defined by the Moroccan authorities – that is, with the exception of Western Sahara and the two Spanish governed enclaves Ceuta and Melilia. Certain events however, suggest that there the state's monopoly on the use of force may not be as solid as it seems. The development of cannabis culture and drug trafficking in the country's Northern provinces could indicate either the state's lack of will to combat this problem or its inability to do so. In either case, this situation raises the possibility that Morocco end up in a Colombian-like situation where drug mafias are powerful enough to contest the state monopoly on the use of force.

In addition, the terrorist attacks of May 16, 2003 in Casablanca – together with the Moroccan authorities' reported dismantling of over 40 terrorist cells – might herald the advent of an armed opposition to the regime. One should not overlook the possibility of linkages between drug money and terrorist activities. According to the Spanish police, part of the explosives used in the March 11, 2004 terrorists attacks were paid for with Moroccan cannabis.

All Moroccan citizens enjoy the same rights regardless of their religion or ethnic background. Although converting from Islam to another religion is technically illegal, no case has been brought forward where Moroccan citizens were prosecuted and/or deprived from their nationality because of their conversion to another religion.

Islam is enshrined in the constitution as the official state religion. The constitution provides for freedom of religion, and the government has generally respected – with some restrictions – this right in practice. Non-Muslim communities openly practice their faith. The constitution designates the King as the “Commander of the Faithful”. The regime bases its legitimacy on the king religious role. Proselytizing is illegal for minority religions. The government tolerates several small religious minorities with varying degrees of official restrictions.

The size of the informal economic sector and the expansion of the illegal cannabis industry have weakened the state administration’s ability to extract and allocate state resources on an effective and equitable basis. According to a recent World Bank report on poverty, population in urban areas is growing at an annual rate of 4%, mostly thanks to rural migration. Coupled with the country’s lack of economic growth – and, in turn, of job opportunities – this trend tends to create large poor urban spaces where criminality, illegal commerce and absence of authority are rampant.

1.2. Political participation

Although the elections at national and local levels held, respectively, in 2002 and 2003 were described as somewhat freer and more transparent than previous ones, they cannot be described as fair and transparent elections. One troubling sign is the fact that there still have been no detailed results of the legislative elections held in 2002 published. The fact that a sophisticated internet-based information system designed to allow observers to track the elections results from the precinct level to the aggregated national level was suddenly disconnected the day before these elections adds to the skepticism about their fairness and transparency. The banning of some leftist and Islamist movements – including the Justice and Charity movement, which is considered as the most popular Islamist movement in Morocco – from participating in elections further weakens the democratic credentials of the electoral process in Morocco.

The Moroccan constitution gives the upper hand to the monarchy. Besides having the final word on the design and – via the ministry of the interior – the implementation of the electoral process, the monarchy has the power to veto laws passed by the parliament. The elected parliament never discusses the defense and security budget, and the heads of the security apparatus must not answer to the parliament. They are directly appointed and supervised by the monarchy. The appointment of one of the opposition leaders, Abderahmane Youssefi, as a prime

minister in 1998 was hailed as a positive step toward the empowerment of the elected parliament. His replacement by a technocrat close to the palace, Driss Jettou, after the 2002 elections is considered a major blow to the fledgling powers of the legislative body. The increasing numbers of royal commissions in charge of major sector policies and answerable only to the king is another manifestation of the weakness of the elected parliament.

Freedom of association for political and civic groups has evolved positively, albeit in fits and starts since the beginning of the 1990s. The concept of civil society has been endorsed by the monarchy as a positive contributor to the welfare of the nation, particularly since 1996. However, the monarchy is accused of crowding out and regulating civil society by setting up the Mohamed V foundation that raises funding annually in a high profile campaign. This money is then redistributed to projects approved by its king's appointed governing body. The regime still denies popular Islamist movements and far left groups registration as associations or parties, effectively excluding them from formal political space. The establishment of loosely defined taboo topics – namely, the monarchy, Islam and territorial integrity – further limits freedom of association. One major positive development is the recognition of cultural rights for the country's Berber population. This has resulted in the creation of a royal institute in charge of promoting the Berber linguistic and cultural rights.

Freedom of opinion is formally guaranteed by the constitution, provided, again, that it respects taboo topics set by the regime: the monarchy, Islam and the territorial integrity. Formally, the interpretation of these taboos is devolved to the judiciary. In a context where the judiciary is subservient to the executive power, however, in reality this interpretation varies according to the will of the monarchy. In several cases during the last five years, the interpretation has been very restrictive, which led to the banning of several newspapers and even the imprisonment of journalists. The situation is now improving, however, due mainly to the monarchy's loss of standing among in the international community following the last banning. The direct intervention of the monarchy in the economic sector is used to strangle the independent media by organizing advertisement boycotts.

Moroccan newspapers are relatively expensive even compared to neighboring countries which citizens have a higher purchasing power. Coupled with a relatively high illiteracy rate (50%), this leads to a dismally low circulation. The much-awaited liberalization of the audiovisual sector is supposed to bring public debates to a wider audience. It remains to be seen, however, to what extent the regime will allow the privately owned television and radio networks to address politically sensitive issues.

1.3. Rule of law

Mentioned in the constitution, the principle of separation of powers has been weakened – if not totally invalidated – by subsequent constitutional provisions. In practice, the separation of powers is nonexistent. The monarchy is the locus of the executive, judicial and legislative powers. Although institutionally differentiated, they remain ultimately under the helm of the monarchy.

The judiciary is not independent. In politically sensitive cases, the judiciary has always adopted the executive's views. The judicial branch has a modern organization; however, its upper body, the Higher Council of Magistrate (*Conseil Supérieur de la Magistrature*), is dominated by the king's appointees. The king's direct or indirect appointees also dominate the constitutional court, which adjudicates in matters of the constitutionality of laws and regulations. The same is true in the Supreme Court, which serves as the final court of appeals of all lower courts. The judiciary's handling of the terrorist cases after the May 16, 2003 attacks was characterized by a massive disregard for the rights of defense. Amnesty International and Human Rights watch have both issued reports criticizing the flawed judicial proceedings in the terrorist cases. In addition, the judiciary is notoriously under-equipped and understaffed.

The law provides for the punishment of officeholders abusing their position. While several cases involving high-ranking government officials during the reign of Hassan II were investigated either by the parliament or by the ministry of justice, however, none has resulted into formal charges. There is a sense that the regime has balked each time the progression of the case has exposes systemic corruption, thus threatening not only the implicated individual but also its own reputation and, in some cases, that of the institution of the monarchy itself. Mohammed VI's regime has also been accused of populism in cherry picking the cases that involve former public officials who have already been discharged and avoiding the cases involving notoriously corrupted officials who are still serving the regime. It should be noted that, since 2000, Morocco has consistently dropped in Transparency International's Corruption Perception Index (CPI). This, if anything, is a sure sign that the regime has not made it a priority to stem corruption.

The monarchy has built on the attempt of Hassan II to compensate the victims of his regime's repression in establishing the Equity and Reconciliation Commission, the mission of which is to document cases of abuses that occurred until 1999 and organize public session of victims' testimonies. Some prominent human rights organizations like the Moroccan Association of Human Rights have criticized the IER because it does not take into account abuses committed after 1999 and does not allow the victims to name the individuals who tortured them. The IER's approach has been weakened by the revelations of the existence of a secret detention center in the outskirts of the capital city, Rabat, where alleged Islamist militant were detained incommunicado and tortured. Several such cases were the

subject of reports published late 2004 by Amnesty International and Human rights Watch.

It remains difficult to say whether the latest reported human rights abuses, especially against Islamist militants, should be seen as a mere overreaction to the terrorist threat or if they reveal the true nature of the regime's practices in this regard. The parliament passed laws defining and banning torture. It remains to be seen how these laws will be implemented and if the judiciary will be able to prosecute state officials for such crimes.

1.4. Stability of democratic institutions

The Moroccan system is designed such that the institution, which exerts real power – the monarchy –, is not governed by the constitution. In contrast, the institutions accountable to the citizens – the elected members of parliament – do not exert any meaningful power.

There is a largely shared understanding among the political elite that institutional changes should be incremental. The concomitance of an increasingly vocal press, the international community's decreasing tolerance for authoritarianism, and the existence of pluralism within the Moroccan polity may embolden democracy supporters. On the other hand, the irrelevance of the "democratic" institutions in governing the country and their perceived use as a smokescreen for the regime could also lead citizens to distrust the whole idea of democracy.

The refusal of the monarchy and the security apparatus to launch democratic constitutional reforms belies their purported attachment to democratic values. Otherwise, all the relevant political movements endorse the notion of democratic institutions. The Islamists have substantially toned down their criticism of democratic institutions as an imported western system. It remains to be seen if this is a mere tactical ploy to attain power or a sincere change of doctrine.

1.5. Political and social integration

While party system is well established, it is also extensively fragmented. Decades of rigged elections and the perceived failure of Abderrahman Youssoufi's government, which was supposed to be relatively independent from monarchy's meddling, has further diminished the party system credibility in the eyes of Moroccan citizens. The 2002 legislative elections have produced an even more fragmented parliament. Indeed, the appointment of a technocrat, Driss Jettou, as prime minister was justified by the inability of the fragmented parliament to form a coalition. Despite the fact that they presented candidates in only half of the disputed districts, the Islamist Party of Justice and Development (PJD) gained 42 seats, making them the third-strongest parliamentary party. This strong showing

was curtailed in the local elections of 2003, mainly because the regime intervened to veto some of its candidates and even in certain cases preventing it to present candidates in its stronghold district. In Casablanca for example, where the PJD has a strong popular base, it presented candidates in only 6 of the 12 districts composing the country's most populous city. The banning of the popular Islamist movement, Justice and Charity, leaves out of the electoral system a potentially important portion of the citizenry. In general, political parties are disconnected from the general population. The low level of popular participation, particularly in major urban areas, demonstrates the skepticism of Moroccan voters toward their political system.

Organized Moroccan civil society has developed markedly since the middle of the 1990s, as a number of non-political groups have banded together to champion important social issues. The women's rights associations have played a tremendous role in advocating the family status reform. The Human Rights associations are also dynamic. The government is attentive to the business community's concerns as conveyed by its rather credible association. The unexpected alliance forged between a network of grassroots anti-poverty non-governmental organizations (NGOs) and the business community following the terrorist attacks in 2003 gives testimony to the increasing interconnectedness of the country's civil society. Although there is a lack of precise information on the Islamist NGOs, it is considered a particularly dense network. It is important to note that there were no major confrontations between the Islamist NGOs and the more secular-minded ones. Civil society remains an urban phenomenon: the rural areas are scarcely touched.

A study published by the Pew Research Center in 2003 showed that that 63% of Moroccans are in favor of a western-style democracy. Seen from this light, low voter participation would seem to be more in relation to the voters' perceptions of the elected officials' irrelevance in governing the country than in the rejection of democratic principles.

Alongside what is believed to be a relatively dense network of civil society organizations operated by Islamists, a more secular civil society movement has gathered steam after the terrorist attacks of May 16, 2003. It is not yet clear how popularly rooted it is. According to a recent census, Morocco has 30,000 NGOs, one-third of which were located in the immediate vicinity of Casablanca and Rabat.

2. Market economy

2.1. Level of socioeconomic development

According to the United Nations Development Program's (UNDP) Human Poverty Index (HPI), 34.5% of all Moroccans live below the poverty line, as

defined by the UN. As such, more than a third of the Moroccan population faces exclusion due to poverty. The level of inequality in income and consumption is 39.5%, according to the UNDP's Gini Index. The poorest 20% of the population's share of income and consumption is only 6.5%, while that of the richest 20% is as high as 46.6%. At 50.7%, Morocco's literacy rate is one of the lowest in the Middle East and North Africa (MENA) region. Public expenditures on healthcare account for only 2% of GDP. While the government recently passed a law to establish a more inclusive medical insurance coverage, this new scheme will still leave out the vast majority of workers who operate in the informal sector.

2.2. Organization of the market and competition

After the failure of the import substitution industrialization (ISI) in the 1970s, Morocco embraced the market economy model. The country's signature of the Association Agreement with the European Union in 1996 and the Free Trade Agreement with the United States in 2004 are testimonies of this strategy. In addition, Morocco has substantially deregulated its economy and promoted foreign investment. Repatriation of profits and currency convertibility are ensured for foreign investors. However, the rampant informal sector has been left unaddressed for political reasons. The Regime seems unwilling to pay the political cost for converting the informal economy to a formal one. According to government figures released in January 2005 on the approximately one million merchants in Morocco, more than 90% operate in the informal sector. The prevalence of the informal sector is to be linked to increasing corruption and justice system failures.

Morocco passed legislation in 2001 to regulate competition practices and avoid monopolies and cartels. Although the members of the Council of Competition (Conseil de la Concurrence) were appointed in 2002, however, they have yet to hold a single meeting. The will of the government to enforce these laws is viewed with skepticism, given that the businesses owned by the king dominate the private sector. As of February 2005, the king controlled more than 30% of the Casablanca stock market: through his companies, he controls 67.5% of the sugar market and 70% of the edible oil market. After the acquisition of Wafabank, an independent banking group, by his bank Banque Commerciale du Maroc, he now controls 20% of the deposits with the banking sector. His bank is second only the state-owned bank.

Morocco's commitment to fully integrate the world economy is evidenced by its partnerships with the European Union and the United States because of these and other free trade agreements, tariff barriers are being dismantled incrementally. For example, due to tariff cuts, customs receipts have fallen by 17% (1% of GDP) since 2002. Further falls are likely as Morocco implements its free trade agreement with the United States. As of today, some sectors and products are still protected to avoid total destruction of domestic sectors and industries. For

example, tariffs on common wheat imports are set at 75%, while those on durum wheat imports are 135%.

Formally, the Moroccan banking sector and capital markets are adopting international standards. However, in some cases supervision of the banking sector has been defective. This was evidenced by the near-collapse of the *Crédit Immobilier et Hôtelier (CIH)*, a state-owned bank specialized in housing and tourism financing. It appeared that the central bank has failed to detect – or, possibly, covered up – major deficiencies in the financial information made public by the CIH management. In April 2004, the central bank said that Morocco's banking system faced no near-term risks, but that the commercial banks had only implemented 14 of 25 Basel II requirements and would not be able to meet the rest until 2007. On the other hand, the stock market watchdog is notoriously reluctant to discipline market improprieties when committed by well-connected players, though minority shareholders' rights are not adequately enforced.

2.3. Stability of currency and prices

The Moroccan authorities have done a good job at taming inflation. For some years, inflation has hovered around 2%. Even though the central bank does not have *de facto* independence, the recent appointment of Abdelatif Jouahri, a highly respected former banker and minister of finance, as governor of the central bank has given it a high degree of credibility. The Dirham is pegged to a basket composed of Morocco's main trading partners. The government's monetary policy has triggered criticism from the World Bank and the IMF, however, who hold that the export sector is stifled by the Dirham's overvaluation.

Since the adoption of structural adjustment program in the middle of the 1980s, Morocco has been committed to preserving macroeconomic stability. Currently, however, this seems to be jeopardized by the government's fiscal policy, where it counts privatization profits as fiscal revenue, masking the true size of the budget deficit. For example, the government has reported that the budget deficit in 2003 was 3.7% of GDP. However, if privatization proceeds from 2003 were correctly accounted for, the deficit shown for 2003 would amount to 5.2% of GDP. Using same means of adjustment for 2004, the deficit forecast would rise one full percentage point, from the government's projections of 4.1% to 5.1% of GDP. As for the 2005 budget, the deficit would reach 6.7% if privatization revenues were not taken into account.

2.4. Private property

Private property rights and the acquisition of property are well defined and protected under Moroccan law. However, the corruption and lack of independence

of the judiciary pose a serious risk for individuals and entrepreneurs seeking to enforce the protection of their property rights.

Morocco began implementing an ambitious privatization program in 1993. During the last two years, the government has partly privatized the telecommunications firm, Maroc Telecom, and completely privatized the tobacco company. Nonetheless, the private sector still suffers from the reluctance of regulatory agencies to discipline contravening companies owned either by the regime cronies or by the king himself.

2.5. Welfare regime

For the population working within formal economy, social safety nets exist mainly through the social security system. This system is not sufficient, however, to compensate the majority of the workforce – whose salaries are rather low relative to the cost of living – for healthcare costs and retirement. There are no safety nets targeting unemployment. The state subsidizes on oil, bread and other staple foods with programs that are both costly and extremely inefficient. The state spends only in 2% of its GDP on healthcare. The Moroccan government is working on a health insurance system that should cover approximately one-third of the Moroccan population, though final details of the scheme are not yet available. Family solidarity is eroding and, as a result, becoming less efficient in making up for the states' inability to provide adequate safety nets to the disadvantaged.

According to the UNDP, the Gini Index for the Moroccan economy is 39.5. Even though government expenditures in education amount to 5% of GDP, the education system is not fulfilling its role in reducing inequality. A bloated bureaucracy and resource mismanagement created a system that ill-equips Moroccan students for the labor market. Unemployment is far higher among the degree-holding candidates – 23.6% – than among those who do not hold a degree – 5.4%. Poverty is mainly prevalent in rural areas where education is not adequately provided, especially for women. On the positive side, the recent reform of family status laws is an important development in the promotion of gender equality.

2.6. Economic performance

Morocco's annual growth rates have risen substantially in recent years, up from a dismally low average of 0.4% during the 1990s an average of 4% from 2000 to 2003. However, this performance has been achieved almost exclusively thanks to high levels of rainfall, on which the Moroccan economy is still dangerously dependent. Average growth in the non-agricultural sectors is typically around 3.5%. Foreign direct investment substantially increased during the observation

period, to \$1.2 billion in 2003 and 2004. This increase, however, was linked to privatization operations – it is highly unlikely that Morocco could maintain such levels in the absence of sizeable privatization operations. After a period of steady decline, public debt relative to GDP is projected to rise after 2005. Another worrying development is the Global Agreement on Textiles and Clothing expired in December 2004. This agreement insulated Moroccan textile exports to developed countries against much cheaper products from China and India. Textiles accounted for 35.5% of the country's exports in 2003 and is the major provider of jobs.

2.7. Sustainability

An environmental division is located at the Ministry of Urbanism and Housing. Although environmental concerns are not a top priority of the government's agenda, several initiatives have been taken to encourage renewable energy production. One of the main goals of this program is to take advantage of the country's natural endowments in solar and wind Aeolian energy, in accordance with the Kyoto protocol, which Morocco has ratified. According to the government, 25 renewable energy projects have been submitted for approval. The stated objective is to decrease Carbon Dioxide emissions by 4 million tons and to increase the share of renewable energy used from 0.24% in 2003 to 10% in 2011. Efforts are being made, though it remains to be seen whether they will bear fruit.

Education expenditure represents 5.2% of GDP. The education sector suffers from resource misallocation. The provision of education services in the rural areas is highly insufficient. As a result, 85% of women living in these areas are illiterate. There are no available aggregated figures on R&D as a percentage of GDP but it is generally considered minimal.

3. Management

3.1. Level of Difficulty

Poverty, a low literacy rate and the urban and rural divide in terms of both of these issues as well as education and infrastructure has effectively impeded the political leadership from facing the challenges of economic development and globalization. The state's role has been strong only as far as security is concerned. Even in this area, the state's presence has been overwhelmed by social and economic problems, as evidenced by terrorist networks that have developed in the impoverished urban slum areas.

Whereas the monarchy stifled civil society from the 1960s to early 1990s, Morocco has witnessed a revival of its civil society since the middle of the 1990s. NGOs have formed to advocate important issues such as human rights and, more

specifically, women rights. The business community is represented by a rather vocal and democratically organized association. On a more popular level, Islamists have been the most dynamic in organizing NGOs to fight poverty. Despite – or, perhaps, because of – the state’s shortcomings, Moroccan citizens are inclined to form NGOs to champion their common causes. Though nascent, this tendency seems to be strong enough to foster a true civic culture.

The terrorist attacks of May 16, 2003 were executed by a religiously motivated group. However, there is no indication that Islamist extremism has any meaningful popular backing. The cultural rights of the Berber-speaking ethnic group are being addressed by the state. However, the Royal Institute for Amazigh Culture, created to study and make proposals for policy makers to reinstate the Amazigh culture in the public sphere, has recently been rocked by the resignation of half of its appointed members in protest of the sluggishness of its action. While it is not clear whether there exists strong popular support for the most radical element among the Amazigh militants, there seems to be no Amazigh/Arab cleavages serious enough to inspire conflict in the near future. The most salient divide remains that between the country’s rich and its poor one. While such divisions may take the form of Islamic militancy, they remain, at base, social in nature.

Profile of the Political System

Regime type:	<i>Autocracy</i>	Constraints to executive authority:	3
System of government:	<i>Monarchy</i>	Latest parliamentary election:	27.09.2002
		Effective number of parties:	10.6
1. Head of State:	<i>King Muhammad VI</i>	Cabinet duration:	10/02-06/04
Head of Government:	<i>Driss Jettou</i>		
2. Head of State:	<i>King Muhammad VI</i>	Cabinet duration:	06/04-present
Head of Government:	<i>Driss Jettou</i>		
<p>Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints posed by a federal or decentralized state, a second parliamentary chamber, referenda, constitutional and judicial review and the rigidity of the constitution. Effective number of parties denotes the number of parties represented in the legislature, taking into consideration their relative weight (Laakso/Taagepera index) = $1 / (\sum p_i^2)$; p_i is the share of parliamentary mandates controlled by party i.</p>			

3.2. Steering capability

While monarchy has formally endorsed democracy and market economy and implemented numerous reforms, it balked at reforming the absolutist nature of the regime to fit the constitution. While the last elections were more transparent than previous ones, they were not very transparent, and some important movements were banned. The Justice and Charity movement and its press are still banned on illegal grounds. In the wake of the 2002 legislative elections, the king appointed a close adviser instead of a majority leader from the parliament.

On the economic side, modernizing legislation is passed but is undermined by the judiciary's lack of independence and the king's overwhelming presence in the private sector.

On the human rights front, an Equity and Reconciliation Commission (IER) began work to settle serious violations of human rights, including compensation for all outstanding cases of arbitrary detention and disappearance prior to the king's assumption of the throne in 1999. Although an encouraging development, this initiative has been criticized for preventing victims from revealing the identity of their torturers during televised testimonies. The initiative has also been criticized for overlooking the human rights abuses perpetrated by the police after the terrorist attacks in 2003, which were documented by both Human Rights Watch and Amnesty International. The modernization of the family status has constituted a major step toward gender equality but has to be implemented by a reform-minded judiciary.

The effectiveness of the implementation of reforms is diminished by the fact that the monarchy's true intentions regarding democratization are relatively unintelligible, as its actions are often conflicting: while media law has been liberalized, journalists are still jailed. Similarly, although the IER process has recently been initiated, secret detention centers are allowed to torture suspected Islamist militants. The secret nature of counter-reform measures often strengthens the position of hardliners. Consequently, many reforms are not enacted effectively.

The Moroccan political leadership does act flexibly. Both foreign and domestic public opinion in opposition to certain policies has led these policies to be changed. However, this flexibility is limited to areas that are not considered as threatening to the absolutist nature of the regime. As such, demands from politically diverse groups on subjects such as constitutional reform have consistently been brushed aside.

3.3. Resource efficiency

Since the 1970s, the Moroccan regime has used state employment to stem social unrest. As a result, the government is suffering from a bloated and inefficient public service. Government spending on wages is more than 13% of GDP. In a recent report on poverty, the World Bank has underlined the inefficient nature of state-funded poverty alleviation programs. While government is implementing a plan to promote early retirement to reduce wage expenses, the plan is still in its infancy and, as such, difficult to evaluate.

Policy coordination has improved with the appointment of Driss Jettou as prime minister. Morocco has a dualist system, where branches of the state directly linked to the king parallel and supersede the formal democratic institutions – parliament, and the government in power because of its possession of a

parliamentary majority. Under the leadership of the socialist Abderahmane Yousoufi, this duality hindered the functioning of the government. By contrast, Driss Jettou's government suffers less from this issue, although it remains a structural obstacle to government coordination.

The period covered by this study has seen a continuous worsening of corruption in Morocco. Morocco's score on Transparency International's CPI has been deteriorating since 2000, reaching 3.2 in 2004. Corruption has a symbiotic relationship with the informal sector of the economy. Coupled with the judiciary's lack of independence, the government's tolerance of the informal sector for the sake of stability is a recipe for rampant corruption. Several prosecutions have been initiated against former high public officials during Hassan II era with little result. Each time the procedures reached the point where the misdeeds were shown to be the natural result of the regime's style of governance, they were brought to a standstill to avoid political embarrassment.

3.4. Consensus-building

The major political actors agree on the necessity of fostering a market-based economy. Despite a formal consensus on democracy, the monarchy is not willing to reform the constitution to end its absolutist rule. Finally, while Islamist movements are officially embracing democracy, it remains to be seen if their conception of democracy differs from the tyranny of the majority.

In the Moroccan case, reformers have no control over the main actor with veto powers: the monarchy. Given the monarchy's exclusive control over the security apparatus, the pace of democratic reforms can peacefully accelerate only with its agreement. While advances have been made on the front of freedom of expression and social modernization with the permission of – and often even on the initiative of – the monarchy, these positive developments fall short of a genuine democratic reform.

From a Moroccan perspective, the Western Sahara conflict can be analyzed as a failure of the political leadership to convince the group of Sahraoui separatists to accept Moroccan sovereignty. The banning of the Justice and Charity movement is due to its rejection of the "Commander of the Faithful" model endorsed by the monarchy. This presents an unresolved political cleavage, especially considering the popularity of the Islamist movement. The Amazigh/Arab rift is being somewhat satisfactorily dealt with. As such, the most potentially disruptive issue remains the enormous social disparities that haunt Morocco. The inability of the political leadership to foster social equity and reduce poverty levels among the deprived could lead to major social upheavals.

The political leadership has encouraged the development of civil society to the extent that this does not threaten its authority. NGOs fighting poverty and

advocating gender equality have been supported. The organization of a solidarity campaign under the umbrella of the Mohammed V Association managed by one of the king's advisors is being criticized because it crowds out spontaneous grassroots initiatives and allocates funding on a clientele-istic basis. Overall, the political leadership has positively contributed to fostering social capital among citizens and social groups.

On social issues, the political leadership has engaged the civil society constructively. State owned media has promoted civil society leaders and hosted debates on the issues they advocate. The most notable event has been the king's endorsement of the modernization of family status laws, long championed by women's rights and other progressive groups. The creation of the Royal Institute of Amazigh Culture is another case in point. However, human rights activists who have criticized the current political leadership's record have been ignored by the official media.

Mohammed VI has furthered his father's initiative of healing the wounds of the past. The establishment of the Equity and Reconciliation Commission (IER) is supposed to definitively settle issues involving serious violations of human rights by providing compensation to all victims of arbitrary detention and disappearance that occurred prior to the current king's assumption of the throne in 1999. The decision to broadcast victim's testimonies on national television is a first in the monarchy's dealing with the issue. The fact that victims are forbidden to reveal the names of their torturers, however, as well as the initiative's restriction to pre-1999 abuses has somewhat weakened its impact. The revelation of the existence of a secret detention center where suspected Islamist extremist were systematically tortured has cast tremendous doubt on the regime's sincerity of renouncing human rights abuses.

3.5. International cooperation

Morocco is one of the main beneficiaries of the EU's MEDA program. While the implementation of this aid program – which sets out to help countries in the southern Mediterranean adapt their economies to trade liberalization with the European Union – in Morocco sluggish at best in its first phase, adjustments improvements have been made. Disbursement has been speeding up by targeting the government's general reform plan instead of specific projects targets. So far, the European Union has not voiced any concerns about Moroccan government's compliance. In line with its policy of economic openness, the Moroccan government had embraced international support and acted on it to improve its domestic reform policies. The obstacles in the implementation of international partners' support appear to be linked to the absolutist nature of the regime: the rampant corruption and failings of the judiciary so often decried by domestic and international observers and partners are the results of an absence of separation of powers and the real power holders' lack of accountability.

Morocco's international standing is nuanced. Measures such as the modernization of the family status laws and the creation of the Equity and Reconciliation Commission, to cite the two most recent and publicized government's initiatives, have earned Morocco a reputation of one of the region's most progressive, democratizing countries. However, the accelerating pace of reform in other countries in the region and the monarchy's unwillingness to address the question of its own grip on all the levers of power risks compromise this positive image. On the other hand, the involvement of Moroccan nationals in international terrorist networks has drawn the attention of the international community on Morocco's social ills poor governance. Cooperation on the police level to fight terrorism is necessary but far from sufficient to stem the tide of violent radicalism. Political and economic reforms are necessary to foster a more prosperous and equitable society that is less likely to spawn terrorism. On the economic side, Morocco has successfully reentered the international financial markets in launching a bond issue in 2004.

The Western Sahara issue is preventing Morocco from fully integrating in the African movement for democratization as embodied in the New Partnership for Africa's Development (NEPAD) initiative, or playing any substantial role in sub-Saharan Africa. Morocco is not a member of the African Union. In the MENA region, Morocco is playing only a small role in the Israeli-Palestinian peace process. Mohammed VI does not enjoy the same kind of relationship with many of the region's leaders than his father did.

The most damaging consequence of the Western Sahara conflict remains the country's soured relations with Algeria. Normalization of Morocco's relations with Algeria would provide the country with much-needed economic regional integration. Euro-Moroccan relationships were strained after the Perejil episode that damaged Moroccan-Spanish relationships, as the European Union uncritically supported Spain. The showdown has dissipated swiftly and the relationship with Spain was fully restored after the Socialist win in Spain's last elections: today, Morocco is considered a privileged partner by the European Union. Here again, however, the Western Sahara issue imperils EU-Moroccan relations. Northern European countries and the Spanish public opinion are strongly in favor of the Polisario cause. The rising prominence of the EU parliament in the power-sharing scheme of EU institutions is particularly worrying for Morocco since it has traditionally criticized the Moroccan position.

4. Trend of development

During the observation period, the trajectory of democracy and market economy remained the same as during the late 1990s. Although progress was made, these changes never constituted a clean break from an absolutist monarchy type of regime. Relatively more transparent elections were held to elect a parliament and

local representatives with extremely limited powers. Popular political movements are still banned. Efforts to reconcile Moroccans with their state through the establishment of the Equity and Reconciliation Commission were tarnished by the continuation of gross human rights violations. On the economic front, market economy needs a non-predatory regime and independent regulatory institutions. Despite some improvements, these two conditions are still not fulfilled.

4.1. Democratic development

Stateness, political participation and the rule of law have not substantially improved. To be sure, civil society is more vocal and media enjoys a hard-earned relative freedom - It is important to keep in mind that Mohammed VI's – not Hassan II's – regime has banned newspapers and jailed journalists in 1999, 2000, 2003 and 2004. However, constitutional reform to end the regime's absolutism is not yet on the radar.

4.2. Market economy development

The change in HDI between 1998 and 2002 was 0.031, whereas the HDI in 1998 was 0.589, while that in 2002 was 0.620. This leap forward should put into perspective: compared to similar countries, Morocco is lagging behind. This should be seen merely as "catching-up:" further improvement is warranted.

The institutional framework has not changed significantly. The bulk of market regulatory modernization was achieved during the late 1990s. The main impediment remains corruption and the lack of an independent judiciary.

Development of macroeconomic fundamentals (2000-2004)

	2000	2001	2002	2003	2004
Growth of GDP in %	1,0	6,3	3,2	5,2	3,5
Export growth in %	6,9	2	7,4	-3,3	2,1
Import growth in %	15,2	1,3	4,5	3,9	14,1
Inflation in % (CPI)	1,9	0,6	2,8	1,2	1,6
Investment in % of GDP	24,1	22,3	22,9	23,5	24,2
Tax Revenue in % of GDP	22,7	22	22	21,7	
Unemployment in %	13,6	12,5	11,6	11,9	
Budget deficit in % of GDP		2,6	4,3	3,3	3,2
Current account balance in billion \$					

Source: Ministry of Finance, World Bank

On average, the Moroccan economy grew at an average rate of 3.8% per annum between 2000 and 2004. This progress is insufficient to absorb unemployment and substantially reduce poverty. Moreover, because this growth is particularly dependent on rainfall, it has a high level of volatility that increases uncertainty for economic actors. During the observed period, there was no progression in insulating the economy from the unpredictability of rainfalls.

D. Strategic perspective

Although Islamist terrorism does not constitute a direct threat to the regime's survival, it highlights the defects of the monarchy's strategy to foster economic prosperity and political stability. In the Moroccan case, socioeconomic travails have a symbiotic relationship with the development of the most virulent strand of Islamist extremism.

Two major trends – economic and political – are currently unfolding. In terms of economics, Morocco has almost completely depleted its privatizations pool. While privatization was intended to ignite growth in the private sector growth, this chain of events has not happened. Instead, recent rounds of privatization might prove to have been mere crutches for public finances. Consequently, Morocco's economic growth will remain dependent on unpredictable rainfall. Not only does this translate into a highly variable growth rate, it means also that the structural growth rate will remain on average beneath what is needed to stem the country's social ills. Morocco's economy is running on a sizeable informal sector, which the Moroccan regime has tolerated in the name of social stability.

This Faustian pact has locked Morocco in a vicious circle. In order to generate taxes to finance basic social needs, the government needs to give breathing room to the legitimate private sector, which means clamping down on illegal commercial activities. How to achieve that objective without provoking social unrest is the challenge with which the Moroccan regime is currently struggling. In terms of political, the coming round of elections - national and local - in 2007 will be particularly trying for the Moroccan regime.

Pressures for constitutional reforms are mounting. Various political groups as diverse as the Amazigh movement, almost all factions of the Islamist movement, and many of the country's left-leaning parties have expressed the need for the democratization of the Moroccan constitution. On the other hand, it is expected that the PJD will not restrict its participation in 2007 to half the contested seats as it did in the legislative elections of 2002. In light of the changing paradigm in MENA politics as exemplified by Hezbollah's preeminence in Lebanon, Hamas' participation to the Palestinian elections and even the more vocal Muslim Brotherhood in Egypt, the Justice and Charity Movement might well confront the regime in order to participate in the 2007 elections.

Coupled with the uncertainties surrounding the economic future of the country, the monarchy can stall and refuse to envisage the necessary political reform to unleash the country's potential, or it can begin to initiate incrementally much-needed changes. If it chooses the first approach, it is foreseeable that populist support could develop around the opposition, leading to the radicalization, especially within the Islamist movements. The second approach could be a winning strategy for the country, especially in the sense that the regime's most potent opposition, the Islamist movement, has demonstrated – or at least professed – its willingness to abide by democratic rules. pressure from the international community - not only political but also economic, as Morocco's prosperity hinges on its economic openness– are moderating forces which can concur with local democratic dynamics to lessen the risks of having the extremist sort of Islamism taking control of the country. Giving a “bonded” legitimate political voice to those who will withstand the worst of the economic transition costs could lead to a smoother passage toward democracy and fair market economy system.