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Overview

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Morocco has a long history of stable and friendly relations with the United States. In 1777 it was the first country to recognize the United States, and in the centuries since it has been an important ally of the United States in the Middle East and North Africa (MENA). Morocco is a stable monarchy that has pursued economic modernization since the 1980s; economic reforms have boosted the country's growth potential, and social reforms have improved human rights, including women's rights. And the reform process continues, with new plans spanning a variety of areas such as tourism, green growth, and export promotion.

An important dimension of these reforms has been to open the Moroccan economy to the world; thus Morocco concluded a free trade agreement (FTA) with the United States, which came into force on January 1, 2006. The FTA was envisaged to strengthen the reform process and provide new opportunities for growth through increased trade and investment.

This volume assesses the first three years of the FTA, identifies benefits and shortcomings in its implementation, and provides recommendations for Morocco to better leverage the agreement. This chapter provides an overview of the Moroccan economy, describing the reform process, economic performance over the last decade, and the impacts of the current global crisis. The chapter concludes with a summary of the Morocco-US FTA and a brief discussion of US economic assistance to the Kingdom for implementation of the FTA.

Chapter 2 presents statistical and modeling work to compare the

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impact of the Morocco-US FTA with that of other US FTAs. The author analyzes the economic performance of each FTA partner and reviews qualitative measures of the ease of doing business in each country. Using a standard gravity model analysis of US trade with each of its FTA partners, the author determines whether trade falls short of or exceeds predicted levels.

The next five chapters present studies of the Morocco-US FTA in five key sectors: agriculture, textiles, services, aviation, and intellectual property. Because the data are limited, the chapters draw on case studies and interviews to complete the picture of Morocco's achievements and challenges in the implementation of the FTA. Each chapter offers recommendations for Morocco to take better advantage of the FTA.

Chapters 8 and 9 examine two other US FTAs, with Jordan and Chile, to draw lessons from their experience in taking advantage of FTAs with the United States. These countries are similar to Morocco in terms of the size of their economies, level of development, and population. Their FTAs are considered successful and can therefore serve as references to suggest "best practices" for Morocco to get more benefit from its FTA with the United States. Similarly, chapter 10 explores useful parallels in the trade relations between Morocco and its largest trading partner, the European Union. Chapter 11 concludes with a summary of the lessons and recommendations set out in each chapter.

Economic and Other Reforms

Morocco has substantially reformed its economy in the past few decades. Indeed, IMF Managing Director Dominique Strauss-Kahn recently called Morocco "a pillar of development in the region."[1]

King Hassan II initiated the first stage of the reform process in 1983 with the aim of stabilizing the economy, primarily by reducing the current account and budget deficits and introducing major fiscal reforms. The second stage, which started in the 1990s, focused on increasing the openness of the Moroccan economy, privatizing state-owned enterprises, and reforming the financial sector. This section reviews reforms in these areas over the past two decades.

Privatization

Morocco announced privatization reforms in 1989 but did not begin to implement them until 1993. Privatization occurred predominantly in in-

1. Statement by IMF Managing Director Dominique Strauss-Kahn at the Conclusion of His Visit to Morocco, IMF Press Release 08/186, July 31, 2008, www.imf.org (accessed on July 8, 2009).

dustry and telecommunications but also involved banking and insurance. All affected sectors saw an increase in investment, especially from France, which was by far the largest investor (65 percent of the total) in the newly privatized Moroccan companies. Privatization also revitalized the Casablanca Stock Exchange as, according to the Moroccan Ministry of Economy and Finance, the privatization of some 65 companies in 1993–2006 yielded 94 billion Moroccan dirhams in revenues[2] (in June 2009, the Moroccan dirham was worth $0.12 and €0.09). Since 2000, roughly a third of the revenues from privatization have been invested in the Hassan II Fund for Social and Economic Development.[3]

Financial-Sector Reforms

In 1990 Morocco launched wide-ranging reforms in the financial sector. Reforms in the banking sector included revisions to the legislative framework governing banks and prudential regulation as well as the liberalization of interest rates. In 2005 a law increased the independence and supervisory power of Bank Al-Maghrib, the Moroccan Central Bank. Capital markets were subject to reforms in 1993 and then again in 2007, with the modernization of the Casablanca Stock Exchange and the creation of a security commission, the Conseil Déontologique des Valeurs Mobilières. In 2001–06 tax incentives were introduced to boost the presence of Moroccan companies on the Casablanca Stock Exchange.

Competition Policy

Morocco enacted a law to liberalize public procurement practices in 1998, and two years later passed a law stating that prices should be freely set by the relevant markets, except in the case of monopolies, crisis situations, and national disasters. The law prohibits anticompetitive measures, except when the practice can be justified by technological or economic progress that benefits the consumer,[4] aims to increase information available to consumers, and guarantees free access to markets.

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2. Impact de la Privatisation sur l'Investissement au Maroc [Impact of Privatization on Investment in Morocco], Royaume du Maroc Ministère des Finances et de la Privatisation, Direction des Entreprises Publiques et de la Privatisation, www.cgem.ma (accessed on June 15, 2009).

3. Since its creation in 1999, the fund has allocated around $2.3 billion for highways, ports, railroads, housing, promoting private investment in tourism, industry, and social development. See www.maroc.ma (accessed on July 8, 2009).

4. Rachid Baina, Loi sur la Concurrence et Contexte International: Experience Marocaine, World Bank, Washington, http://siteresources.worldbank.org (accessed on June 15, 2009).

Business Environment and Investment

In the 1990s and 2000s, Morocco made significant progress in improving its business and investment environment. The government facilitated investment through the establishment of regional "one-stop-shop" investment windows, modernized laws governing companies, and reinforced intellectual property protection. Morocco also introduced three major reforms in 2007 and 2008 (World Bank 2008). The first was a business regulation that guarantees the right of borrowers to check the creditworthiness of lending entities. Second, Morocco revised its tax code and reduced the corporate tax rate from 35 to 30 percent. Third, the state simplified the administrative procedure for imports by consolidating different border agencies into a port community network; this move contributed to speeding up the clearance of goods and reduced the average time to import by one day. However, Morocco still scores relatively low on an international scale in terms of property rights and corruption.

Liberalization

Morocco's first big move toward bilateral liberalization came from the Morocco-EU Association Agreement, which was signed in 1996 and implemented in 2000. The Association Agreement has now evolved to "advanced status," which further opens the Moroccan economy to the European Union. Morocco signed an FTA with the European Free Trade Association (EFTA) in 1997, which came into force in 1999. In 2004 Morocco concluded an FTA with Turkey, which was implemented in 2005 and was especially important for the textile sector, and with the United States, which came into force in 2006.

At the regional level, Morocco became a member in 1998 of the Greater Arab Free Trade Area (GAFTA),[5] which completed the removal of tariffs in 2005 (Abedini and Peridy 2007). In 2004 Morocco, along with Tunisia, Egypt, and Jordan, signed the Agadir Agreement; implementation became effective in March 2007. Morocco is also a member of the Community of Sahel-Saharan States (CEN-SAD), which was established in 1998.[6]

In addition to these bilateral and regional agreements, Morocco has been a member of the World Trade Organization (WTO) since its inception in 1995. However, Morocco's average applied MFN (most favored nation) tariffs remain high—39 percent for agricultural goods and 24.8 percent for nonagricultural goods as of 2007.

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5. The member countries of GAFTA are Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, United Arab Emirates, and Yemen.

6. The member countries of CEN-SAD are Benin, Burkina Faso, Central African Republic, Chad, Djibouti, Egypt, Eritrea, Ivory Coast, Gambia, Ghana, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Somalia, Sudan, and Togo.

Reforms in the 2000s

Since 2000, Morocco has unveiled a series of ambitious plans to boost its economy. The most sweeping of these is the Plan Emergence, which King Mohammed VI introduced in 2005. The plan aims to increase growth by 1.6 percent per year over 10 years and create almost 500,000 jobs by boosting productivity in seven key sectors with strong export potential and thus reducing the trade deficit by 50 percent. The seven sectors are autos, aeronautics, electronics, textiles, offshoring,[7] food processing, and fisheries. In early 2008, this was complemented by the Plan Envol, which added three new sectors with potentially large value added: biotechnology, microelectronics, and nanotechnology. And in June 2009 Morocco announced a new plan, Maroc Export Plus, to triple the volume of exports by 2018.[8] It covers many of the same sectors as the Plan Emergence, with the exception of aeronautics.

With tourism a major industry, in 2001 Morocco initiated Vision 2010, which aims to accommodate 10 million visitors and create the capacity for an additional 160,000 beds by 2010. The plan was expected to raise the share of tourism in GDP from 8.5 to 20 percent by 2010, attract about €9 billion of investment, and create 600,000 new jobs. Although the annual number of tourists entering Morocco increased by 80 percent between 2001 and 2008, it is still only 3.5 million people, well short of the 10 million goal, which, with the advent of the global economic crisis, is certainly out of reach. Part of Vision 2010, the Plan Azur, was to create six new large-scale seaside resorts, but this and most other projects have suffered major delays as investors have withdrawn. In April 2009, Minister of Tourism Mohamed Boussaid announced that Vision 2010 would be scaled back to 110,000 beds and 200,000 new jobs and the goal pushed back to 2016.[9]

For the agricultural sector, Morocco launched the Plan Maroc Vert in 2008, for implementation in 2009–20. The goal is to create 1 million agricultural firms so that the sector contributes an additional 70 billion to 100 billion Moroccan dirhams to the country's GDP and receives new flows of investment of 10 billion Moroccan dirhams per year. The plan also calls for more cooperation between the agricultural sector and meteorologists to prepare the agricultural sector for adverse weather conditions. Morocco's agriculture is particularly vulnerable to changes in the environment linked to global warming. The United Nations estimates that a rise of

7. The Moroccan government will create zones to attract foreign investment to delocalize administrative and data-processing services from their country of origin to these zones in Morocco.

8. Morocco Business News, "'Maroc Export Plus' Strategy Very Hopeful," June 15, 2009, www.moroccobusinessnews.com (accessed on July 9, 2009).

9. Bachir Thiam and Amin Rboub, "Assises du Tourisme: Le Point sur les Stations du Plan Azur," *L'Economiste*, June 9, 2009, www.fmdt.ma (accessed on July 9, 2009).

1°C in the average temperature in Morocco could decrease water runoff into the Ouergha watershed by 10 percent by 2020 (UNDP 2008). Models suggest a decrease in the country's agricultural capacity of up to 40 percent by 2080 owing to water scarcity, and the effects would be worsened by other consequences of rising temperature such as insect pests (Cline 2007).

Finally, Vision 2025 was created in 2006 for the promotion of artisan crafts through assistance to seven national champions in the sector.

Human and Social Development

The World Bank classifies Morocco as a medium-income country based on its per capita GDP levels, but its social and development indicators are those of a low-income country. King Mohammed VI launched the National Human Development Initiative (NHDI) in May 2005 to raise Morocco's social indicators, notably through civil society and community-level engagement. But NHDI funds were insufficient for the magnitude of Morocco's problems, and lack of integration in Morocco's wider development strategy further limited the initiative's impact (Martin 2006). The United Nations *Human Development Report Statistical Update 2008* ranks Morocco 127 out of 177 countries. Most neighboring Maghreb countries fare better—Libya ranks 52, Tunisia 95, and Algeria 100; only Mauritania, at 140, ranks below Morocco.

Morocco performs particularly poorly in the education component of the index.[10] The quality of the public education system is low and coverage inadequate, despite public spending on education of 6 percent of GDP, a relatively high figure (Commission of the European Communities 2004). In 2005, the country's literacy rate, calculated as the percentage of the population over age 15 that is literate, was only 52.3 percent (UNDP 2008), and the combined total enrollment rate for primary, secondary, and tertiary education is only 58.5 percent. These figures represent an improvement over 1998 statistics,[11] but Morocco has not raised its standing relative to other countries beyond the change from 124 out of 174 in 1998 to 126 out of 177 in 2008.

A better-educated population would attract companies that seek higher-skilled workers and thus provide more attractive job opportunities. Those opportunities are now lacking and job creation is low. Although the overall unemployment rate has dropped significantly in the past 10 years (from 19.1 percent in 1998 to 9.6 percent in 2008), youth unemployment remains high: In 2005 it was 16 percent, compared with about 11 percent

10. The other components of the index are life expectancy at birth and GDP per capita.

11. In 1998 Morocco's literacy rate was 47.1 percent, and the enrollment ratio was 50 percent (UNDP 2000).

for the total population.[12] Moreover, Morocco has one of the lowest employment-to-population rates in the world, 46.2 percent in 2007,[13] which largely reflects low employment among women and youth (ILO 2009). There is also an important gap between urban and rural employment; young urban men account for the greatest numbers of the unemployed. All of these factors are worrisome given the expected population growth over the next few years.

Another discouraging feature for skilled employment is the high income tax rate. The top rate of 40 percent applies to all individuals with income above $1,550 a month,[14] a rate that is burdensome for middle-class households.

Economic Overview of the Last Decade

Morocco's average annual GDP growth rate in 1998–08 was 4.6 percent. But there were large year-to-year swings, with a low of 0.5 percent in 1999 and a peak of 7.8 percent in 2006 (table 1.1). The agricultural sector, which accounts for 45 percent of the workforce, maintains an important role in the Moroccan economy, but annual agricultural output is seriously affected by weather variation. The trend of the agricultural share of GDP is down from its high of 20 percent in 1998 to 14 percent in 2007. The dominant sector in terms of its share of GDP is the services sector, which grew to 59 percent of GDP in 2007. The share of the industry sector has remained relatively stable since 1998, at about 27 percent of GDP.

With a population of just over 31 million in 2008, Morocco's per capita GDP was roughly $2,750. The population is expected to grow by 1.4 percent a year over the next five years; it remains to be seen whether Morocco's GDP growth can significantly exceed that rate. Unemployment stood at 9.6 percent in 2008.

Trade

Between 1998 and 2008, Morocco's exports to the world quadrupled, and its imports multiplied by a factor of roughly five. In 2008 Morocco had a merchandise trade deficit with the world of about $21 billion. Since the implementation of the Morocco-US FTA, imports and exports between the

12. World Bank, *World Development Indicators*, www.worldbank.org (accessed via subscription).

13. International Labor Organization, *Key Indicators of the Labor Market*, 5th edition, www.ilo.org (accessed on July 9, 2009).

14. Mesures Fiscales de la Loi de Finances 2009, *Garrigues Maroc Newsletter* 6, March 2008, www.garrigues.com (accessed on July 9, 2009). This is a big improvement over the 2008 budget law, which applied a top rate of 42 percent on monthly income above $1,250.

Table 1.1 Morocco's economic indicators, 1998–2008 (billions of dollars unless otherwise specified)

Indicator	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
GDP	40.0	39.7	37.0	37.7	40.4	49.8	56.9	59.5	65.6	75.1	86.4
Share of agriculture (percent)	20.2	17.5	14.9	16.6	16.5	17.3	16.3	14.7	16.9	13.7	n.a.
Share of industry (percent)	27.7	28.2	29.1	27.6	27.3	27.9	28.5	28.2	27.2	27.3	n.a.
Share of services (percent)	52.1	54.3	56.0	55.9	56.1	54.8	55.2	57.1	56.0	59.0	n.a.
GDP growth	7.7	0.5	1.6	7.6	3.3	6.3	4.8	3.0	7.8	2.7	5.4
Population (millions)	27.8	28.2	28.5	28.8	29.2	29.5	29.9	30.3	30.6	31.0	31.4
GDP per capita (dollars)	1,441	1,407	1,301	1,308	1,385	1,688	1,905	1,967	2,142	2,423	2,748
Inflation (percent)	2.7	0.7	1.9	0.6	2.8	1.2	1.5	1.0	3.3	2.0	3.9
Unemployment (percent)	19.1	14.1	13.4	12.3	11.3	11.4	11.1	11.3	9.6	9.8	9.6
Merchandise trade											
Exports											
To the world	4.6	8.2	7.4	7.2	7.8	8.8	9.9	10.6	13.3	16.2	18.9
To the United States	0.2	0.4	0.3	0.3	0.2	0.2	0.4	0.3	0.5	0.6	0.9
Imports											
To the world	8.4	11.9	11.5	11.5	11.8	14.2	17.8	20.3	25.1	32.7	40.2
To the United States	0.6	0.6	0.6	0.4	0.5	0.6	0.7	0.7	1.0	1.5	1.7
Services trade											
Exports to the world	n.a.	n.a.	3.0	4.0	4.4	5.5	6.7	8.1	9.8	12.2	n.a.
Imports from the world	n.a.	n.a.	1.9	2.1	2.4	2.9	3.4	3.9	4.5	5.4	n.a.

Foreign direct investment											
Outward stocks											
To the world	0.3	0.3	0.4	0.5	0.5	0.6	0.7	0.7	1.3	2.0	n.a.
To the United States	0	0	0	0	0	0	0	0	0	0	n.a.
Inward stocks											
From the world	7.1	8.4	8.8	11.6	12.1	17.1	19.9	20.8	29.9	32.5	n.a.
From the United States	0.1	0.2	0.2	0.3	0.3	0.3	0.2	0.2	0.1	0.2	n.a.
Worker remittances	2.0	1.9	2.2	3.3	2.9	3.6	4.2	4.6	5.5	6.7	n.a.

n.a. = not available

Sources: International Monetary Fund, *World Economic Outlook*, April 2009, and *International Financial Statistics*, March 2009; UNCTAD Foreign Direct Investment Online Database; United Nations Service Trade Statistics Database, http://unstats.un.org/unsd/servicetrade; US Bureau of Economic Analysis; World Bank, *World Development Indicators*.

two partners almost doubled, albeit from a low base. In 2008 the Moroccan trade deficit with the United States was a little under $1 billion, but Morocco's US trade still accounts for a very modest share (4 percent) of its trade with the world. The Kingdom's largest trading partner remains the European Union, because of physical proximity and strong historical ties.

Table 1.2 shows Morocco's 2007 merchandise trade with the world and the United States by product category. Exports to the world were dominated by miscellaneous manufactures, a category that includes textiles and clothing. Indeed, the top Moroccan export to world markets that year was apparel, clothing, and accessories, which accounted for roughly a quarter of total Moroccan exports to the world. Exports to the United States, on the other hand, showed a concentration in crude materials, especially fertilizer and minerals, which made up a third of total exports to the United States (Morocco ranks among the world's top producers of phosphates, a key ingredient of fertilizer). Apparel and clothing sales are the fourth most important export category to the United States.

Morocco's merchandise imports from the world are concentrated in energy, manufactures, and machinery. The leading import product is petroleum and petroleum products. From the United States, Morocco imports mostly primary products (particularly cereals and oil seeds) and machinery and transport (rail and tramway) equipment.

In 2007 Morocco's services trade with the world exhibited a surplus of almost $7 billion, reflecting the role of tourism. Table 1.3 shows that travel is the leading category of Moroccan exports to the world, especially personal travel. Transportation and other business services are Morocco's main services imports from the world. Unfortunately, data for services trade between the United States and Morocco are not available.

Foreign Direct Investment

As shown in table 1.1, Morocco is mainly a recipient of foreign direct investment (FDI)—inward stocks from the world grew by a factor of four between 1998 and 2007, to over $32 billion. However, of those stocks, only $200 million originated from the United States. Morocco's outward stocks of FDI to the world were only $2 billion in 2007 (although statistical coverage may be poor), of which only $5 million was in stocks in the United States.

Remittances

Another important stream of earnings for Morocco comes from overseas workers' remittances. The International Organization for Migration estimates that some 3 million Moroccans live abroad, roughly 10 percent of the Moroccan population, and that 86 percent of them are in the European

Table 1.2 Morocco's merchandise trade with the world and the United States, 2007 (millions of dollars)

Category		Exports to the world	Category		Exports to the United States
Aggregates			**Aggregates**		
0-9	All goods	14,607.3	0-9	All goods	346.0
0-2,4	Primary products, excluding fuels	4,202.0	0-2,4	Primary products, excluding fuels	179.2
3	Mineral fuels	557.1	3	Mineral fuels	43.2
5-8	Manufactures	9,833.8	5-8	Manufactures	123.5
SITC groups			**SITC groups**		
0	Foods and animals	2,707.5	0	Foods and animals	38.6
1	Beverages and tobacco	21.8	1	Beverages and tobacco	0.2
2	Crude materials	1,412.7	2	Crude materials	137.6
3	Mineral fuels	557.1	3	Mineral fuels	43.2
4	Fats and oils	59.9	4	Fats and oils	2.9
5	Chemicals	2,154.5	5	Chemicals	42.5
6	Material manufactures	1,120.5	6	Material manufactures	22.1
7	Machinery, transport equipment	2,433.0	7	Machinery, transport equipment	20.1
8	Miscellaneous manufactures	4,125.8	8	Miscellaneous manufactures	38.7
Top Moroccan exports			**Top Moroccan exports**		
84	Apparel/clothing/accessories	3,517.1	27	Crude fertilizers/minerals	128.3
77	Electrical equipment	2,038.3	33	Petroleum and products	43.2
03	Fish/shellfish, etc.	1,316.9	56	Manufactured fertilizers	33.1
05	Vegetables and fruit	1,107.9	84	Apparel/clothing/accessories	30.9
52	Inorganic chemicals	1,102.7	05	Vegetables and fruit	20.9
56	Manufactured fertilizers	869.6	77	Electrical equipment	17.5
27	Crude fertilizers/minerals	793.2	68	Nonferrous metals	13.4
33	Petroleum and products	557.1	03	Fish/shellfish, etc.	11.7
28	Metal ores/metal scrap	400.1	29	Crude animal/vegetable matter nes	9.3
85	Footwear	338.7	55	Perfume/cosmetic/cleanser	9.2

(table continues next page)

Table 1.2 Morocco's merchandise trade with the world and the United States, 2007 (millions of dollars) *(continued)*

Category		Imports from the world	Category		Imports from the United States
Aggregates			**Aggregates**		
0-9	All goods	31,650.4	0-9	All goods	1,929.8
0-2,4	Primary products, excluding fuels	5,219.5	0-2,4	Primary products, excluding fuels	950.7
3	Mineral fuels	6,328.2	3	Mineral fuels	262.4
5-8	Manufactures	20,012.5	5-8	Manufactures	716.6
SITC groups			**SITC groups**		
0	Foods and animals	3,118.9	0	Foods and animals	691.8
1	Beverages and tobacco	143.8	1	Beverages and tobacco	17.6
2	Crude materials	1,557.9	2	Crude materials	165.3
3	Mineral fuels	6,328.2	3	Mineral fuels	262.4
4	Fats and oils	398.8	4	Fats and oils	76.0
5	Chemicals	2,920.3	5	Chemicals	128.0
6	Material manufactures	6,287.5	6	Material manufactures	40.8
7	Machinery, transport equipment	8,924.4	7	Machinery, transport equipment	495.6
8	Miscellaneous manufactures	1,880.2	8	Miscellaneous manufactures	52.2
Top Moroccan imports			**Top Moroccan imports**		
33	Petroleum and products	4,754.6	04	Cereals/cereal preparation	568.1
65	Textile yarn/fabric/articles	2,305.6	32	Coal/coke/briquettes	183.7
78	Road vehicles	2,107.7	79	Railway/tramway equipment	158.4
77	Electrical equipment	2,075.5	22	Oil seeds/oil fruits	141.0
04	Cereals/cereal preparation	1,774.1	71	Power generating equipment	117.4
67	Iron and steel	1,468.2	08	Animal feed excluding unmilled cereal	94.6
74	Industrial equipment nes	1,213.0	33	Petroleum and products	78.7
34	Gas, natural/manufactured	1,171.4	42	Fixed vegetable oils/fats	63.8
72	Industry special machinery	1,164.8	57	Plastics in primary form	63.5
76	Telecom, etc. equipment	915.9	78	Road vehicles	53.5

nes = not elsewhere specified
SITC = Standard International Trade Classification

Source: World Integrated Trade Solution Online Database, http://wits.worldbank.org/witsweb.

Table 1.3 Morocco's services trade with the world, 2007 (millions of dollars)

Category	Exports	Imports	Balance
Total	12,158.8	5,425.1	6,733.7
Transportation	1,819.4	2,213.2	–393.8
Sea	557.9	1,507.2	–949.3
Air	1,138.2	574.8	563.4
Other	123.4	131.3	–7.9
Travel	7,173.7	878.3	6,295.4
Business	—	150.3	–150.3
Personal	7,173.7	728.1	6,445.7
Communications services	402.6	107.8	294.8
Construction	—	—	—
Insurance services	71.2	113.5	–42.3
Financial services	—	—	—
Information services	—	—	—
Royalties and license fees	4.2	36.0	–31.8
Other business services	2,010.9	1,179.6	831.3
Personal services	—	—	—
Government services, n.i.e.	676.9	896.6	–219.8

n.i.e. = not included elsewhere
— = not applicable

Source: United Nations Service Trade Statistics Database, http://unstats.un.org/unsd/servicetrade.

Union, mostly France and Spain.[15] Moroccans abroad maintain strong ties with their country of origin, and their remittances are important to the Moroccan economy. Indeed, as shown in table 1.1, such remittances totaled nearly $7 billion in 2007, almost 9 percent of GDP, making Morocco, after Egypt, one of the largest recipients of remittances in the MENA region. Furthermore, those figures account only for recorded flows; the actual amount could be much higher, as money is often repatriated through means outside the formal banking system.

While some of the remittances go to the families of expatriates to cover daily household expenses, the funds are increasingly being invested, especially in Moroccan real estate, since alternative investment opportunities in Morocco are few (Hadj Nacer and Alméras 2008). However, some

15. International Organization for Migration, Morocco Overview, www.iom.int (accessed on June 5, 2009)

investment is flowing into financial instruments. Moroccan expatriates account for 58 percent of overseas investors in the Casablanca Stock Exchange and for almost 28 percent of total investments in Moroccan mutual funds.[16]

Since remittances represent an essential source of foreign currency for the Moroccan economy, it is important that banking institutions on both sides of the Mediterranean work together to facilitate transfers and decrease costs, which can be very high.

Impact of the Global Crisis

Despite the global economic crisis, Morocco's GDP growth in 2008 was high—5.4 percent. This performance is attributable to a good agricultural year due to high rainfall. For both 2009 and 2010 the International Monetary Fund (IMF) estimates that growth will fall to 4.4 percent. The African Development Bank is more optimistic, predicting growth in 2009 at 5.4 percent, against its estimate of 5.7 percent for 2008.

Morocco's macroeconomic picture is relatively sound. At the end of the first quarter of 2009, it posted a budget surplus. A fall in tax revenues was offset by a larger fall in government expenditure due to lower spending on subsidies and wages.[17] The unemployment rate in March 2009 remained 9.6 percent, the same as in 2008.

But as a small open economy (total trade is 68 percent of GDP) and one that is highly dependent on tourism and remittances, Morocco stands to suffer from the global crisis, especially as a result of falling demand in the European Union. The Moroccan Ministry of Economy and Finance estimates that exports and imports of merchandise and services fell 24 and 16 percent, respectively, in the first quarter of 2009, year-on-year; the Caisse de Dépôt et de Gestion estimates that FDI into Morocco fell by 25 percent in the first quarter of 2009, year-on-year.[18] These drops could result in a sharp rise in unemployment (although that has not yet been observed), which could in turn lead to social unrest.

Selected Industries

Some industries, in particular, are suffering from the crisis, notably autos, textiles, and leather. Subcontracting in the auto industry decreased

16. "Morocco: Remittances Burgeoning," Morocco Newsline.com, September 24, 2008, www.morocconewsline.com (accessed on June 5, 2009).

17. Maghreb Arab Press, "Morocco posts budget surplus of $4.5mln up to April," May 22, 2009, www.map.ma (accessed on July 9, 2009).

18. "Foreign Investment Declined by 25%," IPR Strategic Information Database, May 12, 2009, factiva.com (accessed via subscription on July 9, 2009).

30 percent[19] and sales of ready-to-wear clothing fell 6 percent in December 2008, year-on-year. Between November 2008 and March 2009, shoe orders fell 30 percent. In February 2009, Morocco adopted a plan to boost exports in those three sectors in response to the crisis: The state will cover 80 percent of the costs of prospecting for new clients, with a ceiling of 100,000 Moroccan dirhams. The government will also reimburse 100 percent of employer contributions (health and pensions), proportional to revenues from exports, for firms that agree to maintain at least 95 percent of their workforce and to guarantee certain wage levels.[20]

Tourism

The tourism industry in Morocco showed some signs of weakening at the beginning of 2009, but by April the situation seemed to improve. In fact, tourist arrivals increased by 24 percent in April 2009, year-on-year, and flows of Moroccan nationals living abroad increased 38 percent over the same period. The number of nights spent in classified hotels fell 3 percent in the first quarter but rose by 5 percent in April 2009, year-on-year.[21] Still, travel receipts fell almost 19 percent between the first quarter of 2008 and the first quarter of 2009.[22] These statistics suggest that tourism is declining and that visitors are spending less freely. European visitors account for over 80 percent of all tourist visits to Morocco, so if the economy drags in Europe, the Moroccan tourism industry could suffer. Although Morocco has fared relatively well during the crisis, the real test of the country's tourism business will come in summer 2009.

Remittances

The Moroccan government has taken various initiatives to attenuate the impact of the global crisis on remittances, which dropped 14 percent between April 2008 and April 2009. One is the elimination of fees on money transfers handled by Moroccan banks or their foreign affiliates until the end of 2009. Another is a 50 percent reduction in the exchange commission on all transactions between Morocco and foreign entities (DEPF 2009). The obvious worry is that Moroccans living abroad will slow their transfers as they lose jobs or contend with lower pay. However, the World Bank finds

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19. Sarah Touahri, "Morocco Works to Shield Industries from Financial Crisis Fallout," *Magharebia*, February 3, 2009, www.magharebia.com (accessed on July 9, 2009).

20. "Le Plan Anti-Crise Signé Demain," *L'Economiste*, February 23, 2009, www.leconomiste.com (accessed on July 9, 2009).

21. A classified hotel is a hotel that satisfies criteria set by the country's tourism agency and has been ranked.

22. Statistics are from the Morocco Ministry of Tourism, www.tourisme.gov.ma (accessed on June 20, 2009).

that remittances are quite resilient to income shocks. Moreover, tighter controls at the European border have so far not decreased the flows of Moroccan immigrants and in fact may increase the average duration of migration abroad (World Bank 2009). The World Bank therefore estimates that remittances to the MENA region will decrease by only 1.4 percent in 2009 and will quickly rebound to grow by 2.9 percent in 2010 and 5.6 percent in 2011.

Banking and Financial Sector

The banking and financial sectors in Morocco have fared relatively well in the crisis, thanks to strong fundamentals in the banking sector[23] and the fact that the financial sector is not tightly integrated into international financial markets. Moreover, because Morocco has not yet developed its own market for financial instruments such as mortgages and derivatives, it avoided a "home-grown" version of these crises. All in all, the sector has remained relatively sheltered from the global crisis.

An IMF report assessing Morocco's financial systems estimates that spillovers from the financial crisis have been limited because the country's foreign debt is low, with long maturities, and because its corporations and banks obtain little financing from external debt markets (IMF 2008). Nonetheless, in sympathy with world markets, the Casablanca Stock Exchange suffered a drop of 25 percent and paper losses of 170 billion Moroccan dirhams between September 1, 2008, and January 30, 2009.

Real Estate

The impact of the crisis on the real estate market has been modest. Casablanca, the economic capital of Morocco, maintains high prices as it struggles to accommodate the demand for housing. In most cities except Marrakech, new construction is under way and prices remain high, assisted by large investments in tourist infrastructure. Most real estate demand in Morocco is domestic (around 80 percent), and this remains strong. Nonetheless, the Banque Marocaine du Commerce Extérieur (BMCE), which accounts for 24 percent of Morocco's real estate loans, struck a deal with major Moroccan developers to secure access to credit and provide loan guarantees (50 percent guaranteed by the government, 50 percent by BMCE) for middle-class buyers.[24]

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23. For a comprehensive picture of the Moroccan banking sector, see Hadj Nacer and Alméras (2008).

24. Reuters, "Morocco's BMCE Bank Counters Real Estate Crisis," April 23, 2009, www.reuters.com (accessed on July 9, 2009).

The Morocco-US FTA

The Morocco-US FTA belongs to the class of US FTAs motivated primarily by foreign policy objectives. Morocco represents for the United States a reliable partner in a region characterized by instability. The United States believed the FTA would help strengthen the process of political and economic reform in Morocco and the whole MENA region. As then US Trade Representative Robert Zoellick put it, the "agreement with Morocco [was] not just a single announcement, but a vital step in creating a mosaic of US free trade agreements across the Middle East and North Africa."[25] More recently, Secretary of State Hillary Clinton confirmed the US interest in reforms: "We are so committed to our relationship and have very high regard for the extraordinary progress that has taken place in Morocco over the last few years."[26]

For Morocco, the FTA provided new market access for Moroccan companies and the prospect of increased investment from the United States and others as business regulations improved. The FTA also validated the government's efforts to reform the economy.

Coverage of the FTA

Upon implementation of the FTA on January 1, 2006, trade in 95 percent of consumer and industrial products became duty-free; the remaining 5 percent will be liberalized over nine years. The Morocco-US FTA was considered the best market access package of any US FTA with a developing country. Key US exports—information technologies, machinery, construction equipment, and chemicals—gained immediate duty-free access to Morocco. Moroccan textiles and apparel are duty-free under the agreement if they meet the rules of origin (for details, see chapter 4).

In services, Morocco and the United States use a "negative list" approach, meaning that all sectors are covered unless specifically exempted. Using the terminology of the WTO General Agreement on Trade in Services (GATS), the FTA covers Mode 1 (transborder supply), Mode 2 (foreign consumption), and Mode 3 (commercial presence). The agreement provides new opportunities for US banks, insurance companies, and securities services to establish branches and subsidiaries in Morocco, and US firms are allowed to provide some cross-border services in selected insurance and financial services. The agreement also provides an open and competitive telecommunications market.

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25. Emad Mekay, "Trade: US Sets First Piece of Mideast Trade 'Mosaic' in Morocco," IPS News, March 3, 2009, http://ipsnews.net (accessed on July 9, 2009).

26. Reuters, "Secretary Clinton Praises Morocco for Longstanding Partnership, Recognizes Morocco's Historic Role in Combating Piracy on High Seas," April 9, 2009, www.reuters.com (accessed on July 9, 2009).

Concerning investment, both parties provide guarantees for equitable treatment and the transfer of capital and profits for investors of the other party. The FTA also includes an arbitration mechanism for conflicts between investors and the state.

In intellectual property, the FTA provides protection for trademarks and copyrights, including digital products, and expands the protection of patents. Piracy and counterfeiting are to be punished by tough penalties (50,000 Moroccan dirhams and a prison sentence of up to four years in Morocco).

The FTA includes rules on government procurement for most of Morocco's central government agencies and regional and municipal governments. Projects that cost more than a certain threshold should not encounter discrimination between US and Moroccan firms.

To guarantee transparency, both parties must publish their laws and regulations on trade and investment and allow the public to discuss new regulations in draft form. Transparency and publication of laws is also key in customs procedures. Both parties agree to share information on customs.

The agreement also covers environmental and labor issues, two areas of great importance in the US Congress. On environment, the parties agreed to effectively enforce their domestic environmental laws, a commitment which can be enforced through the dispute settlement mechanism of the FTA. In addition, the agreement encourages cooperative efforts on environmental issues. Upon signature of the agreement, the US Environmental Protection Agency and the US Agency for International Development launched a project to develop Morocco's environmental laws, and strengthen its environmental institutions, and enforcement capacities. On labor, like other US FTAs, the agreement states that both partners should thrive to ensure that domestic labor laws are compliant with the principles of the 1998 ILO declaration.[27] However, unlike more recent agreements, the Morocco-US agreement does not impose a minimum wage level and explicitly provides for the option of making use of the WTO dispute resolution.

US Assistance to Morocco

In support of both Morocco's reforms and implementation of the FTA, the United States provides assistance to Morocco through three main sources: the US Agency for International Development (USAID), the Middle East Partnership Initiative (MEPI), and the Millennium Challenge Corporation (MCC). US economic assistance to Morocco is largely tied to the implementation of the FTA (Malka and Alterman 2006, 62).

27. The Declaration on Fundamentals Principles and Rights at Work, www.ilo.org (accessed on July 10, 2009).

Table 1.4 USAID assistance to Morocco, 2007–09 (millions of dollars)

Category	FY2007 actual	FY2008 estimate	FY2009 request
Peace and security	16.3	7.2	7.0
Counterterrorism	1.0	0.9	0.4
Combating weapons of mass destruction	0.4	0.4	0.2
Stabilization operations and security-sector reform	14.9	5.8	6.4
Governing justly and democratically	6.4	4.6	7.0
Good governance	5.4	2.6	3.0
Political competition and consensus building	1.0	1.0	2.0
Civil society	—	1.0	2.0
Education	2.7	4.8	6.5
Economic growth	9.5	10.1	8.0
Trade and investment	4.9	2.2	2.0
Financial sector	0.6	0.3	—
Agriculture	1.8	3.8	3.0
Private-sector competitiveness	2.3	3.9	3.0
Program support	0.3	—	—
Total	35.2	26.7	28.5

— = not applicable
USAID = US Agency for International Development

Source: USAID (2009).

USAID formulated its 2004–08 strategic plan for Morocco to complement the Morocco-US FTA, focusing on three core objectives: increased opportunities for trade and investment, education and training for employment, and increased government responsiveness to citizens. To that end, although USAID financing in Morocco had declined to about $7 million in 2003 (from a high of $100 million in 1981), it rose to an estimated $26.7 million in 2008. Of that total, table 1.4 shows that the agency dedicated $10.1 million to increasing Morocco's economic growth, including just under $4 million each for the agricultural sector and efforts to improve private-sector competitiveness and $2.2 million for trade and investment. Further allocations included $7.2 million to programs to enhance peace and security, $4.8 million for education, and $4.6 million in support of just and democratic governance ($2.6 million for good governance and $1 million each for political competition and civil society).

The aim of MEPI assistance is to improve the political and economic development of the country and upgrade its education system. The aid is channeled through the USAID, and projects are often conducted in cooperation with other agencies, domestic and foreign. In Morocco, one of the main beneficiaries of MEPI (CRS 2005), projects include development of the rural education system, training for women and youth in political participation, assistance for compliance with FTA customs requirements and environmental protection provisions, and capitalization of microfinance institutions.[28]

The MCC announced in August 2007 a grant of nearly $700 million to Morocco, for distribution over a five-year period. The grant will finance programs to reduce poverty and stimulate economic growth by, for example, increasing productivity and employment in high-potential sectors such as fruit cultivation, small-scale fisheries, and artisan crafts. Smaller projects in financial services and support for entrepreneurs will also be funded. During the program's first seven months it disbursed $4 million and committed $71 million in contracts.[29]

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28. For more information, see the MEPI country page on Morocco, www.medregion.mepi.state.gov (accessed on June 20, 2009).

29. MCC Morocco Compact Progress Report, www.mcc.gov (accessed on June 14, 2009).

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