

Issues relating to future challenges facing the Morocco- EU partnership

Study Day at the Royal Institute for Strategic Studies (IRES), Rabat

June 24th, 2011

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I. issues

1. The current situation in the transforming Arab countries and their potential evolution

The current situation requires us to have a clear vision of the paradigm shift implied by the Arab spring. The overall issue can be illustrated in the end of a "form of authoritarian and inveigling capitalism." In a more flexible, the literature speaks of the failure of the "Authoritarian Bargain Model" (see Gandhi and Przeworski 2006; Desai et al, 2009). I believe the similarity is strikingly parallel to what we saw at the end of the 80s with Eastern bloc countries. But here the reasons are almost reversed and the situation is probably more easily comprehensible if we respond as we should.

I think we have everything to gain by getting involved decisively in this new to-build world.

Some landmarks for a vision:

- To ensure immediate and sustainable basic minimum conditions particularly for food safety (for forty years all the Arab revolts are occurs due to that. Cf. During the Sadat time particularly the rise of the Muslim Brotherhood after the revolt of Cairo, fires on the pyramids road, hotels etc..., ditto in Rabat and Tunis following the IMF missions that wanted to eliminate subsidies on agricultural products, which a justified position as far as economic is concerned but an absurd position as far as society is concerned)
- To be aware of the fact that economic performance in the context of trade openness dilates the internal social space. We need then to adopt a better compensation process for the losers, to ensure a better access to care and to maintain a territorial balance. We should also, if we cannot support the necessary equality, focus on the fairness of the development model.
- The lever which will enable us to reach that is democratization in all its aspects. This will be the new driver of economic growth. It is very important to say that in the modern world freedom and transparency are factors for economic growth.

- To process thoroughly a factor of production that must concentrate on youth (instead of the capital!). There will always be the capital but not in the same form and with the same effects.

If we accept that we are moving through an authoritarian and corrupt capitalism to a democratic capitalism, we necessarily experience for a period of 4/5 years great difficulties in the short term, especially in countries where transition is abrupt,. This will put at risk the whole process.

- Strong decrease in growth is due to agents' expectations. It is really surreal to hear the European Council saying “you will get along if you make the South-South integration.” Similarly, the subject is obviously a not short-term investment recovery. Investment funds are no longer able to do fundraising, for the entrepreneurs take no more risks.
- Very strong increase in the budget deficit in countries where the transition has these characteristics (Egypt, Tunisia) due to lower revenues from indirect taxes, hiring of a mass of young employees (which will in five years lead to drastic adjustment plans), inflation, reserves decrease (tourism, transfers), currencies pressure, higher interest rates, etc. We will not escape these phenomena, but we must immediately try to prevent them via the North commitment
- It will depend, as in the former Soviet countries, on agents' expectations (our tourists, our investors, and youth in the south). We should consolidate a political vision that will lead to a perspective that will increase financial transfers or guarantee free from North to South.

I.2. The new political vision key points:

1. The need for a new development model

We should work on a development model that represents the majority of the population. In most cases, the development model does not represent the majority of the population, but the interests of limited elite. This targeted development model has worth its merits because it has significantly increased growth, helped to diversify its content, and pushed countries to open up more and more. It is characterized by an acceleration of modestly differentiated domestic and foreign investment, and by an essential growth relating to the market forces (and a decline in employees' commitment to all that is public), private initiative, minimal intervention of states. It is characterized by growth relating to, and as far as this elite are concerned, specific agreements on the land allocation, the establishment of large contracts (energy, large projects, etc.) and competition and subsidies policy, often oriented to the interests of rich and powerful businessmen who are also politically powerful. Moreover, it is characterized by a difficulty in implementing the transfers because of competition between countries to attract foreign capital (an extremely favorable tax treatment).

Social transfers have increasingly been carried out by NGOs on the basis of international funding on targeted operations, which was certainly a good thing. However, as such it has led to not giving enough attention to the major national institutions (the blind institutions) responsible for the society equilibrium.

2. Five specific approaches to be followed:

- The first is the democratic necessity that involves (i) at first the good information, totally profound and free for the press, and available for researchers and intellectuals in general, (ii) a better representation of all social categories in the national representation, (iii) greater involvement in decisions-making including at the local level, (iv) an effective separation of powers between the executive, legislative and judiciary powers.
- The second concerns the improvement of the actual functioning of institutions to gain public trust. Fifteen economists including myself have signed an appeal published in the international press so that the G8 consider significant assistance to countries of Arab spring (which has reached for Tunisia and 40 billion USD). The idea was that during the transition process, they necessarily suffer (which is actually the case) of a J-curve effect which the developed countries should support exactly as they did with the countries of Eastern Europe. Two days later, E.Phelps wrote an article criticizing this call to indicate that this transfer would be useless or would be detrimental within the context of current "connivance" (or even corruption). In brief, we can summarize his remark, which is considered a bit excessive in terms of financial transfer, but which deserves to be taken into account as follows: "all this will not help if the youth cannot find jobs and dynamism, if the public offers are not transparent and monitored by independent bodies, if the privatizations lead to an increase of commissions by large global international companies, or, even worse, because it deeper and more insidious, if one has to pay or have a well established relative to obtain a job in administration, to have a planning permission, a favorable decision of the Commercial Court, a street vendor permit, an enrollment in a school, farm aid, etc ". This is a fundamental issue in the Mediterranean (It does not only concern the South), because if it seems desirable that the Mediterranean countries maintain a sense of emotional fraternity closeness and are reluctant to some often hypocritical Puritanism forms (benchmarks and other assessments) that grows around the world, the social proximity should not lead to classes connivance or networks. In this respect, morals and ethics should be taught at school because the transformation of the legal institutions is generally not effective. Any involved person must be denounced by the press and sentenced by the courts regardless of his/her position in society. This observation has straight away, implied the creation of a fully independent control agency for public tenders and privatization and mediation between citizens and authorities.
- The third approach relates more directly to international openness and integration into globalization. The latter is essential, but must be conducted with as clear conscience as the opening up policy, if it always causes net gains in GDP for its winners (people in areas of comparative advantage and those in companies performing economies of scale) and at the same time causes difficulties for losers (sectors of comparative disadvantages and protected sectors as well). The explicit consideration of the losers (and the transfer required) since the implementation of measures is imperative. I will focus on this point when I will approach the issue of advanced partnership with the EU and especially the opening services. Second, it should not be "naive" and must be accompanied by structural policies to develop new comparative advantages (see Rodrick). this is how everyone works now.
- The fourth concerns the top out, that is to say, the penetration of the knowledge economy, the transition from extensive accumulation of capital growth to Total Factor Productivity growth. This is summarized in three words: trust-dynamic-mobilization of youth.

- The fifth and final approach is to look for a better territorial balance by decentralization / well conducted devolution, infrastructure and rural areas development.

II. The stakes for Morocco: conduct a smooth transition

Morocco is concerned with the aforementioned issues, but less than its neighbors and from a more favorable initial situation. An important point is that democratic developments to be followed were anticipated and made particularly in terms of separation of powers and citizen participation. But despite this, a significant change is essential. I will not give a presentation of the social and economic situation of Morocco that everyone here knows (economic growth around 4%, significant progress in diversification and opening up, rapid growth model for the benefit of PGF, strong territorial imbalances, situation of poverty that is of concern but consistently gliding down with an increasing inequality, macroeconomics control, initiation of structural policy (emerging plan).

However, I think that Morocco should specify a readable overall strategy that takes into account previous observations. The issues that must support a new vision as far as I am concerned is as follows:

- Go to inclusive growth spreading evenly throughout the country. This means moving towards the momentum of the Kuznets curve by reducing the gap between growth of around 4% and a poverty reduction of 2%. This means that inequality increases by 2% per year.
- Provide basic living conditions (food, health) for all, which implies the question of food security and rural development.
- Defende a national ethic which means that without a quick and sufficient progress on equality, we should at least provide equal opportunities: fight against illiteracy, fight against school drops out (approach competences beside the approach diplomas, cf. E2C etc..), massive development of learning and alternation, integration into all curriculums of master's degree in "business" (breakeven rate calculation, reading balance sheets and operating accounts, making a business plan, computerized driving license via "soft learning", games, seminars etc.), transparency in all areas relating to employment (cf. above).
- Develop the knowledge economy by relying on youth. This involves collecting their expectations, allowing them to express themselves and give them the possibility of political participation. This requires an overall improvement in the education system quality (in this respect Morocco is not among the countries that accept the PISA tests. This is a deficiency to be remedied to provide a comparative indicator to the concerned institutions). It also means conducting an audacious development policy and the alternation of vocational training, to develop mechanisms of initiation based on unsecured loans to start businesses, to develop a self-employment project . The unemployment rate for 15-24 year olds is now close to 20%, the 25-34 years 13%, without counting underemployment and unsecured informal employment. This affect more the urban areas. Rural areas, however, are more affected by poverty. The knowledge economy also requires greater recognition of social research profession and devices encouraging patenting.
- Promote the development of SMEs-SMIs by encouraging their establishment (and here plays a bank with excess liquidity a central role), to ensure that foreign direct investment have more spillover effects (which may be obtained by creating, with the

help of the international community, a guarantee fund of FDI with contractual conditions on subcontracting), set up tax-free funds as is common in Europe (cf. FIP). These measures are essential because Morocco for 1% additional growth produces only 0.35% increases in employment (significantly lower than that of Tunisia 0, 55%). It is important to understand that this objective is not incompatible with the international openness insofar as it allows SMEs-SMIs, as several studies have shown, to obtain productivity gains and this all thanks to imported inputs.

In addition to this, there is obviously the further opening-up policy and institutional reforms. But it is not certain that further gains expected from the opening up are very important as much as the mechanism to finance these very effective developments. This usually concerns additional funds allocated to departments and institutions that modify their regulatory framework to adapt practices that have not really changed. However, the clear lack of technological content of Moroccan exports (see report Femise 2010) calls for further quality approaches, especially getting closer to European standards.

III. Morocco's advanced status in the context of the EU neighborhood policy

The advanced status from which Morocco benefits in terms of its relations with the EU positions Morocco at the head of the Mediterranean countries (approximately € 180 million in 2010 to free transfers and 388 million EIB loan for the period between 2007-2013). This development is welcome taking into account the interdependence that exists with the EU (two thirds of Morocco's trade is with EU) in terms of strengthening the zone of free trade and institutional developments (especially the approximation of the legal framework and standards that allow access to the European market). This concerns the adoption of EU rules on agriculture to services and intellectual property and the ability to fit in some major European programs. Added to this are more limited specific actions in terms of rural development, gender equality, the fight against illiteracy etc.

The first question concerns the political strategy. Is Morocco right to deepen its relations with the EU in the current period, given what has been said before? The answer is clearly positive since the gravity model runs fully because of the interdependence that relates the two sets. This view is supported by the fact that the EU is likely the first to have given since 1995 the most consistent and strongest speech in favor of democracy, liberation of women, human rights and institutional transformation. The reference to the EU is a powerful way to initiate reforms internally. The only regret is that the prospect of accession is absent and that "everything but institutions" is the best open perspective. Note also that the full membership to the European market means to lay down some 3000 guidelines into Moroccan laws. This makes it a considerable and costly burden.

The second question concerns the size of the financial commitment. The figures mentioned above, although significant compared to that of other Mediterranean countries, remain still small compared with the reality of the transfer equation presented below. Given such numbers we find that the EU, representing 2/3 amounts:

1. Perform an "unaffected" transfer that cannot be completed by FDI and bank loans. The system of interdependent equipment is clearly in favor of the EU which was predictable since 1995 and which we had had the opportunity to focus on at the time. Indeed, the Mediterranean countries had free access to European market for industrial products as part of the Mediterranean policy. Barcelona and its FTA forced them to

liberalize their markets for industrial goods coming from the EU without the latter making significant progress in agriculture. This trend reversed with comparative advantages has nevertheless produced a shock effect which has boosted growth in the Mediterranean countries but it has misbalanced the transfer equation. As far as trade percentage is concerned, the EU get from the Mediterranean countries in terms of market performance more than it gets anywhere in the world.

2. In this system of interdependence, Morocco is in a fragile state because its large trade deficit will loop through tourism, "remittances" of migrants and FDI supposing that these three components are not diminishing;
3. This situation is deteriorating due to the higher trade deficit, the crisis period and the relative weakness of European domestic demand have naturally resulted in a greater increase in imports than in exports;
4. It appears that in Morocco there is a new phenomenon observed all over the world: when the **D**irect **F**oreign **I**nternational **I**ncome grows, the transfer of the capital income increases in the opposite direction and eventually this output flow offset the new DFI inflows.

Therefore, Europeans must understand that the development of partnership is conducted, essentially, to their advantage and we are very far from a plan Marshall whose goal was to balance the equation of U.S transfer with the European countries.

(Two charts)

The third question is whether the partnership with the EU must include meeting the needs mentioned above to develop a new development model I would venture to describe as "democratic capitalism based on a majority of citizens. "On this point, it seems clear that the device must change if it wants to participate in this great cause. The reason is that liberalization trade in goods and tomorrow in services that was central to the partnership so far will not be enough to achieve the new development expected by the population. However, this potential future is limited and shall be based on structural active policies of large dimensions as mentioned above. It is on these bases that the advanced partnership must now focus. In this respect, the possible adoption of EU directives on competition by Morocco seems highly questionable. Finally, the issue of services cannot be treated indiscriminately. For services "factors" transport, ports, insurance, finance, telecommunications, the opening-up policy will improve the competitiveness (while noting, however, one major European bank can buy almost all Mediterranean banks and it will always be very difficult to envisage the privatization of Royal Air Morocco). For the distribution of a "societal" service it would be obviously a big mistake today to open excessively large businesses of global sector because the adjustment would be significant. What would become of smaller shops in the medina?

Thus, it seems clear that to be fully effective in the current partnership with the EU, we should focus less on free trade. We should engage in such partnership with insight and techniques, increase its financial base and participate more in structures issues that are in place.