MOROCCAN BUSINESS ENVIRONMENT

The American Chamber of Commerce (AmCham) based in Casablanca, Morocco firmly believes that the kingdom has outstanding business potential as evidenced by the large number of foreign firms established in the country and the continued level of interest in a wide variety of business dealings with the kingdom. The mass-scale surveys conducted by the AmCham in 2001 and 2003 indicated a significant improvement in company executives' perception of the Moroccan business environment. In 2003, 85% of respondents indicate that their decision to invest in Morocco was a good one (compared with 63% in 2001). Furthermore, 71% of respondents were willing to expand their investment in Morocco. A similar proportion (77%) would recommend investing in Morocco to other investors.

The business environment comprises an array of forces acting upon organizations often far-reaching implications (Brooks and Weatherston 2000, 20). In order to find out the opportunities and threats in doing business in Morocco it's very important to scan the Moroccan business environment for many reasons:

- The nature of business environment fundamentally influences the activities of business – it affects its markets, its technologies, and its workforce;
- Operational activities, like new product launches, staff recruitment drives and manufacturing technology reviews need to recognize environmental factors and changes in order to better ensure success of the venture;
- It's likely that profit and organizational well-being are fundamentally related to environmental conditions;
- Strategic planning needs to take into consideration likely changes in the business environment. (ibid.)

In any consideration of these factors surrounding the organization, we apply the PESTEL analysis model (see figure 2) to explore the general Moroccan business environment. The simple acronym PESTEL (standing for Political, Economic, Social, Technological, Environmental, and Legal) serves well as an aide-memoir when considering the array of environmental forces influencing business activities in a country (ibid.) A PESTEL analysis looks at 6 factors that influence a company's performance and indeed the performance of the whole industry of a company. PESTEL can identify environmental factors which could influence strategic decisions as well as looking at trends or future developments which are of strategic importance.

Figure 2: PESTEL model

2.1 Political Environment

The kingdom of Morocco (Al-Mamlaka Al-Maghribiya in Arabic), in North Africa, is one of the oldest monarchies in the world. The kingdom is situated on the north-west seaboard of the African continent. It is separated from Spain by the Strait of Gibraltar. Its neighbours are Algeria to the east and Mauritania to the south-east, and it is bounded to the west and north by the Atlantic Ocean and the Mediterranean Sea (see map 1). Morocco's land area of 710 000 square is divided into 16 Wilaya, or administrative districts, which are in turn subdivided into 65 provinces and prefectures. Casablanca is the country's main economic and business centre, while Rabat is the capital and administrative centre. (Ministry of Communication 2005.)

Map 1: Map of Morocco
Source: ITU 2001

Morocco is a constitutional monarchy in which the King possesses much more authority than either the judiciary or the legislature. The Moroccan Constitution provides for a monarchy with a Parliament and an independent judiciary. Ultimate authority rests with the King. He presides over the Council of Ministers; appoints the prime minister following legislative elections; appoints all members of the government taking into account the prime minister's recommendations; and may, at his discretion, terminate the tenure of any minister, dissolve the Parliament, call for new elections, or rule by decree. The King is the head of the military and the country's religious leader. (Oxford 2005.)

Historically, there has been a noteworthy degree of political and economic stability and continuity in the country. The long survival of the established monarchy and its position as a religious as well as secular institution provided the government with deep-rooted legitimacy (Middle East Institute 2004.). The Alawi dynasty has reigned in Morocco since 1660. His Majesty King Mohammed Ben El Hassan Alawi (Mohammed VI) acceded to the throne in July 1999 following the death of his late father, His Majesty King Hassan II who reigned for 38 years (1961-1999). King Mohammed VI is the eighteenth sovereign of the Alawi dynasty, and the thirty-sixth descendant of Prophet Mohammed (peace and blessing be upon him). (USDS 2004.)

The government, consisting of a Prime Minister and 24 ministers, is responsible to the King and Parliament. Members of the government are appointed by the King at the proposal of the Prime Minister. The Parliament was first bicameral from 1962 to 1970, and then unicameral from 1970 to 1996. Under the new constitution of 1996, it is bicameral once more, consisting of a House of Representatives (with 325 representatives elected to a five-year term) and a House of Councillors (with 270 members serving for a nine-year term, elected indirectly by various electoral colleges - 162 by local councils, and 108 by industrial groups, farmers' groups and labour unions). (Encarta 2004)

Morocco has a multiparty political system. Most parties are aligned in three major groupings: The Wifaq bloc consists of pro-government rightist parties, such as the Constitutional Union (UC) and the National Rally of Independents (RNI); the Koutla bloc includes socialist opposition parties, such as the Socialist Union of Popular Forces (USFP) and the Istiqlal Party (PI); and a third group is made up of centrist parties. (Oxford 2005.)

Parliamentary elections held in September 2002 were widely regarded as free and fair and were followed by successful local elections in September 2003. Morocco was internationally praised for fair and transparent elections in fall 2002. The Koutla represents 80% of the government coalition led by non-party member, technocrat, Driss Jettou. The largest parties in Parliament are: USFP with 50 seats, PI with 48 seats, PJD with 42 seats and RNI with 41 seats (TPCC 2005, 11). Thirty Parliamentary seats out of 325 are reserved for women (MPR 2004.).

Much has changed in Morocco over the past decade, including moves to democratise public life and make government and public institutions operate more transparently. A key to this was amending the national constitution in 1996 under the late King Hassan II to, among other measures, give more power to parliament and prepare for elections in 1997, which resulted in a coalition government headed by a senior opposition figure, Abderahaman Youssoufi. Determined to give an impetus to the political transition process, King Mohammed VI, has taken steps to boost civil liberties and human rights (OECD 2004, 11.).

These include setting up a human rights advisory committee with wide investigatory powers, reforming the civil liberties code, abolishing the state broadcasting monopoly and creating a national broadcasting watchdog body, strengthening minority rights by setting up a Royal Institute for Amazigh Culture and incorporating its Berber language in schools. In the same vein, efforts have been made to boost the government's openness and improve its relations with citizens. These include reforming public procurement, setting up regional boards to audit public accounts, new rules for collections debts to the authorities, a law obliging officials to avoid oral decisions and to explain measures in writing and creating an ombudsman system (Al-Wassit) to hear citizen complaints and mediate in disputes between them and the authorities. (OECD 2004, 11)

2.2 The Socio-Cultural Environment

Organizations operate in a dynamic and multifaceted social environment. They experience a complex interactive relationship with a social community or a society. Figure 3 illustrates a diverse array of social phenomena which individually and collectively both shape, and are shaped by, society (Brooks and Weatherston 2000, 174.).

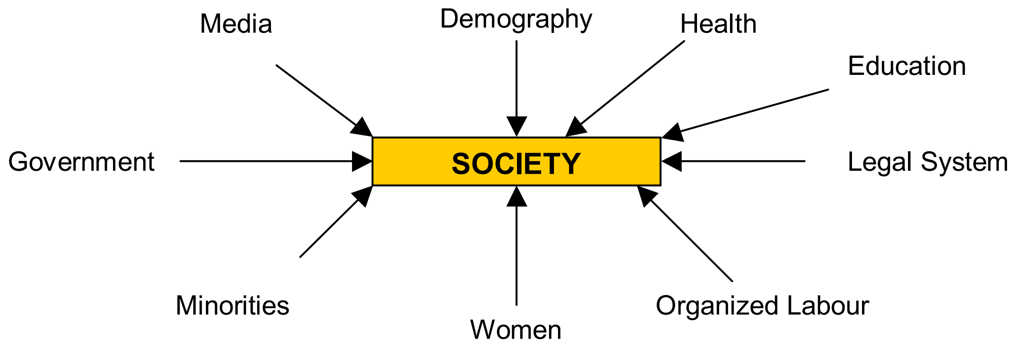

Figure 3: Simple model of the social environment
Source: Brooks and Weatherston 2000,174

This section takes a closer look at a number of critical social phenomena in Morocco (i.e. health and education, people and culture), which profoundly influence organizations and their activity. We examine the Moroccan cultural context and focus on the dynamic nature of the cultural business environment with an examination of some key issues.

2.2.1 Culture and People

Morocco is the third oldest nation in Africa, after Egypt and Ethiopia. The most westerly state in the Arab world, Morocco has been shaped by the interaction of the original Berber population with several ancient civilizations (Phoenician, Carthaginian, Hellenic, Roman) and other more recent cultures (Arab, Portuguese, French, Spanish) (Middle East Institute 2004.). Of the country's 29,840,273 million inhabitants (HCP[1] 2004), more than 50% are under the age of 20 and 70% under the age of 30 years (ICT SitExpo 2004). About three-quarters of all present-day Moroccans are of Berber descent, while Arabs, who first arrived in the 7th century, form the second largest ethnic group (Middle East Institute 2004).

The vast majority of the population is Sunni Muslim (98.7%). There are also Christian and Jewish minorities (1.1% and 0.2% respectively) (Middle East Institute 2004.). Morocco has about 51.435 Europeans, most of them French. The three biggest cities are Casablanca, Rabat and Fez with 20% of the total population (Ministry of Communication 2004). One third of the country's population lives in the Casablanca region (3.6 million), the Souss-Massa-Draa region (3.1 million) and the Marrakech-Tensift-Al Haouz area (3.1 million). In addition to the Casablanca province, three cities Kénitra, El Jadida and Marrakech host more than two million inhabitants each (HCP[1] 2004).

Arabic is the country's official and the primary language of business and culture spoken by some 75 percent of the population. About 25 percent of the people use Berber as their mother tongue. French, English, German and Spanish are thought at schools. Moroccans thus base their identity on their common lineage as a people and the structure and nature of the power relationships that exist in their society. (Middle East Institute 2004.)

2.2.1.2 Hofstede: The Dimension of Moroccan Culture

The term culture is defined as learnt behaviour comprising thoughts, feelings and actions. This learnt behaviour distinguishes the members of one group of people from another. The people who share the same culture are defined by factors such as nationality, geographical location, or ethnic group (Hofstede 1984, 21.). Culture is shared; however, that is not to say that everyone in a particular culture thinks and acts in the same way. Individual differences are significant. Many countries have a distinct national culture; nevertheless, subcultures exist within many countries. Different subcultures exist based on other criteria, such as social class, gender, age, religion, and occupational group (Brooks and Weatherston 2000, 176.).

Hofstede has identified work-related values in fifty world countries on four dimensions. Although methodologically some of the findings, may in detail, be questionable, what they do show is significant and crucial differences between countries. These differences have important implications for all organizations that operate in, have dealings with, or employ people from more than one country Hofstede found that cultures differ according to the degree people exhibit:

- Individualistic or collective tendencies;
- Large or small power-distances between one another;
- Strong or weak uncertainty avoidance tendencies; and
- Masculine versus feminine characteristics. (Brooks and Weatherston 2000, 178.)

Table 1 manifests Hofstede's findings where he classifies countries culturally in line with the four dimensions discussed above. The Moroccan culture was analysed together with the other Arab countries.

Country	Power Distance	Individualism/ Collectivism	Uncertainty avoidance	Masculinity/ Femininity
Arab countries	80	38	68	53
Denmark	18	74	23	16
Italy	50	76	75	70
Japan	54	46	92	95
USA	40	91	46	62
Turkey	66	37	85	45

Table 1: Nations Classification according to Hofstede Factors
Source: Hofstede 1984.

2.2.1.2.1 Power Distance

Power distance indicates the extent to which a society accepts the fact that power in institutions and organisations is distributed unequally among individuals (Hofstede 1991). Power is highly valued in Morocco. Moroccans are likely to accept a legitimate an unequal distribution of wealth and large point distance between the "haves" and the "have-nots". There is a high dependence need and inequality is somehow maximized. The hierarchy is needed and superiors are often inaccessible. Respect is shown when talking to higher persons.

2.2.1.2.2 Uncertainty Avoidance

This indicates the extent to which a society feels threatened by ambiguous situations and tries to avoid them by providing rules, believing in absolute rules and refusing to tolerate deviance (Hofstede 1991). Morocco's public sector has very strong uncertainty avoidance. People need certainty, planning, and order. There is more anxiety that causes higher stress and conflicts are threatening. There is a need for laws and rules and avoiding failure is common. There are strong needs to avoid uncertainty by preserving the status quo. There is also a need of greater certainty and dominance from the leaders. Decisions making is authoritative rather than consultative. Symbols and procedure in the country are often more highly valued than the end results of their actions.

2.2.1.2.3 Individualism

Individualism indicates the extent to which a society is a loosely knit framework in which people are supposed to take care only of themselves and their immediate families, instead of a tight social framework in which people distinguish between in-groups and out-groups and expect their in-group to look after them (Hofstede 1991). Moroccans have been characterised as a highly collectivist society in which large families and their extended networks are highly valued. Family ties are very important in securing work and promotions.

2.2.1.2.4 Masculinity

Masculinity refers to the extent to which a country is placed on a spectrum from masculine to feminine (Hofstede 1984). Like Italy and Japan (Hofstede 1991), Morocco is a masculine culture. There is a distinction between the role the two sexes play in society and at work. Males are expected to emphasise the importance of work, power and wealth. There is less equality between the two sexes, and achievements are not measured in terms in environment and human contacts like feminine cultures such as Finland and the Netherlands.

2.2.1.3 The Moroccan Business Culture

Moroccan business customs reflect a mix of Arab and Mediterranean influences, rather than African. Rarely are there breakfast meetings, lunches tend to be late and long, and business meetings are most commonly held in offices, rather than over meals. Moroccan hospitality is world-renowned, and business contacts enjoy entertaining in their lovely homes. Business attire is similar to warmer climates in the US. It is often a good idea to reconfirm appointments in advance. While business people are encouraged to arrive at appointments on time, one should not be surprised at encountering delays, and it is wise to schedule meetings recognizing that some could start, or run, late. (ITA 2004)

A growing number of young Moroccan entrepreneurs with degrees from American schools conduct business in English, but it is always a good idea to determine in advance the language to be used during the meeting, should it be necessary to hire an interpreter (ITA 2004.). Generally, business meetings are conducted in French, but the use of English is increasing. Spanish is also spoken. Meetings tend to be slow-paced, beginning with long amenities and gradually approaching the purpose. Negotiations often involve a lot of bargaining, and a visitor should expect to deal with many people. (Export Info 2004)

Moroccan women are becoming more involved in business activities. There is no difficulty for foreign women doing business, or representing foreign companies, in Morocco. Handshaking is the customary form of greeting but some people may brush cheeks or kiss. Greetings usually include inquiries about one's health and family. Many of the manners and social customs emulate French manners. Business people should be dressed professionally and conservatively, but a suit is not necessary in very hot weather. (ITA 2004)

Businesses are open Monday through Friday and sometimes Saturday morning. Most businesses close for lunch from noon to 2:00 p.m., except during the month of Ramadan, when they remain open at mid-day but close earlier in the afternoon. Morocco is a Muslim country. Consumption of alcohol during the fasting month of Ramadan is prohibited for Muslims only but others are encouraged to refrain from consuming alcohol during this month as well. (ITA 2004)

2.2.3 Social Developments

One of the major social reforms implemented by the king is the revised Family Law (Moudawana), adopted in early 2004 and giving both spouses shared authority in the family, abandoning the rule of obedience to the man, raising the minimum age of marriage for girls from 15 to 18, requiring a court order for divorce and giving a wife the right to ask for one. (OECD 2004, 11.)

The social sector is one of the government's major priorities, for both social reasons (building individual capacity, combating social and regional inequality, poverty and exclusion) and economic ones (skills training and qualifications that firms need to boost their productivity and be more competitive). The government has focused in recent years on fighting growing poverty, which affected 13.7 percent of the population in 2004, down from 19 percent of the population (5.3 million people) in 1999 (OECD 2004, 11.), less than MAD 3,500 (around $US 388) (MAP[1] 2005).

The economy created nearly 757 000 jobs between 1999 and 2004 (i.e. 189 000 per year). This brought the national unemployment rate down to 10.9 percent in 2004 (13.5 percent in 2001). Public service provided just 9.8% of jobs noting that this percentage decreased regularly during the last years since the private sector has become the first job provider with 76.6% in the urban area in the period between 1996 and 2003 Unemployment in the rural area declined too from 22% in 1999 to 19.3% in 2003 to attain 18.9% during the first nine months of 2004 (MEVT 2005.). Unemployment among graduates fell from 26.8 to 25.6 percent in urban areas and from 15.8 to 13.6 percent in rural areas. This was much higher than for those without qualifications (OECD 2004, 11-12).

The government has stepped up neighbourhood-oriented approaches with its Integrated Social Development Plan which aims to give the poor access to basic social services, encourage income-generating activity and create jobs for young people. As well as combating begging and mobile trading and providing help through the national body Entraide Nationale, anti-poverty efforts include improving living conditions and basic rural infrastructure. Policy is guided by a survey showing a need to replace 1.24 million housing units in 2002, two thirds of them unfit for habitation (540 000 sub-standard and 270 000 in slums). (OECD 2004, 11-12.)

Efforts to tackle the situation include the 10-year National Programme to Prevent and Reduce Unfit Housing (PNRARHI), an updated version of the National Programme to Combat Unfit Housing (PARHI). It aims to increase cheap housing by using three income levels (multiples of the minimum wage) as a guide – houses for the poorest at between 80.000 and MAD 120.000 ($7.300-$10.900) and for the two other categories at MAD 120.000-150.000 ($10.900-$13.600) and MAD 150.000-200.000 ($13.600-$18.200). It expands home loan facilities for poor and middle income families through greater involvement of banks in funding cheap housing. (OECD 2004, 12.)

2.2.4 Health

Major efforts have been made during the past 30 years to improve the health system; but much work remains to be done to reduce social, regional, health and gender disparity (World Bank[1] 2001). Public spending on health is equivalent to 6% of the GDP (World Bank[2] 2005). Morocco has made a commitment to providing more access to health services for its citizens, especially in rural or poor areas. A $US 450 million World Bank loan granted in 2003 went in part to upgrade the health sector (Arab Datanet[1] 2003.).

Basic healthcare centres grew from 1 980 in 1998 to 2 341 in 2001 and the number of people per doctor improved from 2 579 in 1998 to 2 123 in 2001. Life expectancy rose slightly to 70 years in 2001 (69.2 in 1998) and child mortality was down to 39 per 1 000 (from 66 in 1980). Vaccination coverage of babies less than a year old was steady at 59 percent. There is still far to go in improving health care however. (OECD 2004, 11-12.)

To guarantee better access to healthcare and higher quality, the government is working to strengthen preventive medicine, expand the hospital network, renovate infrastructure, ensure adequate medical supplies and extend coverage (OECD 2004, 11-12). More recently, Morocco introduced a new mandatory health insurance policy (AMO) in January 2005. But the beneficiaries will begin to take advantage of this new policy starting July 2005. This is because the state will need six months to build the base reserve fund with the contribution of the beneficiaries and their employers (North Africa Journal 2005.).

2.2.5 Education

Morocco has the highest illiteracy rate in the Maghreb region with only 56% of its population that is literate (MAP1 2005) as compared to Algeria 68.9%, Tunisia 73.2% and Libya 81.7% (APC 2004). Indeed, education is one the biggest challenges that the King and Government have to face. Public spending on education is equivalent to 6.6% of the GDP (World Bank2 2005).

Morocco has made significant strides in education over the past decades. The education system in Morocco has undergone several reform and unification programmes in an effort to reduce regional differences in quality and standards, and to ensure universal access to education throughout the country. In 1963, education became compulsory for Moroccan children between the ages of 7 through 13 however, enrolment was only at about 85% in 2000. (Arabian Campus 2005.)

Nevertheless, many children, particularly girls, in rural areas still do not attend school. The country's illiteracy rate has been stuck at around 44 percent for some years but reaches as high as 83 percent among women in rural regions. Education is a high priority for the King, and a national education charter is in place, which mirrors many of the elements targeted under the current programme of US Agency for International Development (USAID); 1999-2009 has been declared by the King as "the education decade" (USAID[1] 2004.).

The World Bank approved a $US 80 million loan to Morocco in February 2005 that will enable all children to attend school by 2008. The loan is destined to support a Basic Education Reform Support Program known as Parsem in Morocco. The Program will increase access to basic education, improving educational quality, encourage stakeholder participation, ensure financial sustainability, and promote accountability in sector management. (World Bank[2] 2005.)

The most progress has been made at primary level, where net enrolment of 6-11 year-olds had risen to 92 percent in the 2002/03 school year, from 69 percent in 1997/98. It was especially good in the countryside, where the figure for boys was 87 percent (up from 55.4) and 82.2 percent for girls (up from 44.6) (OECD 2004, 12.). Enrolment in the middle school level increased from 18% to 32%, and in secondary education from 6% to 15% over the same period. (World Bank[2] 2005)

There are 290 schools affiliated to superior education in Morocco, from which 55 private high schools (ME[1] 2005), granting 91 079 Baccalaureate certificates in 2004 (ME[2] 2005) (see table). The big majority of private high schools are concentrated in Rabat (22) and Casablanca (39). These establishments contribute to the number of higher education students by 11.519 students for the 2000-2001 academic year. It is important to understand, however, that most of these private schools are not of high academic integrity and standards. As a matter of fact, out of the 55 schools, only about 10 to 15 are reputable schools whose diplomas have credentials in the local job market (MBA report[1] 2002.).

Baccalaureates speciality	**Graduates**
Modern Literatures	37 876
Sciences	46 711
Economics and Management	2 039
Technology	4 453
Total	91 079

Table: Baccalaureates Graduates in Morocco in 2004
Source: ME[2] 2005

Morocco had 277.428 students enrolled in 14 public universities in academic year 2003-2004 (ME[3] 2005). In some ways the most prestigious universities are Al Karawiyine University in Fez (AD 859), the world first founded university which has been a centre for Islamic and secular studies for more than one thousand years (Middle East Institute 2004), Mohammed V University (1957) in Rabat, with faculties of law, sciences, liberal arts, and medicine, and Mohammedia's University for Engineers (1976) (USDS 2005.).

Modern higher education is offered also at Mohammed Ben Abdullah University (1974), at Fez; Kadi Ayyad University (1978), at Marrakech; Hassan II University (1976), at Casablanca; and Mohammed I (1978), at Oujda. Rabat also has colleges of fine arts, public administration, agriculture, and economics, and the School of Native Arts and Crafts (1921) is in Tétouan (Campus Program 2005.).

There are four American-style high schools in Morocco located in Tangier, Casablanca, Rabat, and Marrakech that grant Baccalaureate certificates. Many American Language Centers lie in major cities as well. Morocco has one private university, Al Akhawayn, in Ifrane. Al Akhawayn, founded in 1993 by King Hassan II and King Fahd of Saudi Arabia, is an English-medium, Western-style University comprising about 1.000 students (USDS 2004.).

Recent Moroccan policies aimed at broadening education opportunities and improving worker development and technical training will enlarge the labour pool available to new investors. One of the major negative perceptions about the day-to-day of doing business in Morocco includes an educational system that does not meet the needs of the 'real world'. The high school level education system is not seen as adequately serving the needs of the business community, and students are not generally seen as well prepared for life in the business world. The most favourable rating goes to qualified personnel holding BAC+ 6 (AmCham[1] 2003.).

2.3 The Economic Environment

On one level it is possible to consider organizations as having control over their own actions. They can decide upon the kinds of resources they require, relate these to forecasts of demand, the current goals of the organization and the organization's long-term strategy. However organizations do not exist in a vacuum. They are affected by and respond to changes in both short-term and long-term economic and business conditions. (Brooks and Weatherston 2000, 80.)

This section concentrates on the Moroccan economic factors, which impinge upon business behaviour. We pay a special attention to the country's liberal reforms, foreign trade, bilateral trade agreements, Tangier free trade zone, FDI and the general investment climate.

2.3.1 Developments and Challenges

The Moroccan economy grew at 3.5% in 2004. This performance is a stark contrast to the good 5.2% growth of Gross Domestic Product (GDP) recorded in 2003 ($US 44.52 billion) (MEP 2004). The kingdom's economy grew especially rapidly in 2003 because of ample rainfall (USEIA 2004). Morocco's average annual growth rate was amounted 4.5% in the 2000-2003 period, compared to 3.6 in 1996-2000. The Moroccan economy is expected to grow modestly in 2005 forecasting a 2.6% increase of GDP. Excluding the agricultural sector, the Moroccan economy is expected to grow at 3% in 2005, while for the first quarter, GDP is forecasted to increase 1.9% (OECD 2004, 4.).

Morocco is heavily dependent on agriculture, which contributes 16% of its GDP and employs 43% of its labour force, compared to industry (32% of GDP) that employs 25% and services that employ 35% (USDS 2004.). Within the industrial sector, the main activities are phosphate mining (6% of GDP valued at $US 343 million in 2004) (i.e. Morocco has the world's largest phosphate reserves) (MEM 2005), manufacturing and handicrafts, construction and public works, energy, food processing and textiles, while the main activities making up the services sector are commerce and tourism (USDS 2004.).

Tourism, which had been growing in economic importance, has been hard hit by the September 11 terror attacks, the Iraq war, and the May 2003 bombings in Casablanca (USEIA 2004). However, Morocco became one of the best destinations in the short-medium distances hosting over five million tourists in 2004, In comparison to 2003, Spanish tourists have increased by 44%, French by 27%, English by 26% and Germans by 13% (ITB 2005.).

With annual cereal production topping 8.3 million tons, total FDI reaching 24 percent of GDP and savings 25.3 percent, and tourism revenues generating MAD 34.1 billion ($US 364 million), these good figures had a positive impact on the balance of payments current account which recorded a surplus of 1.3 percent of GDP. Nevertheless, the trade account deficit widened a whopping 34 percent because of an increase in imports to MAD 155.3 billion (+14.1%) in comparison with stable exports of MAD 85.5 billion (+2%). (MEP 2004.)

Unemployment remains the principal socio-economic problem in Morocco. The unemployed and underemployed make up an estimated 23% of the Moroccan workforce, and the problem is worsening. This figure masks significantly higher urban unemployment (currently at about 18%). Unemployment rate reached 10.9% in the fourth quarter of 2004, down from the 12.3% of last year and the number of employed people is estimated to be 11.5 million (USDS 2004). An estimated 300 000 young workers enter the Moroccan job market every year, while only 189 000 new jobs are created annually. Unemployment disproportionately impacts women, the young, and the college educated (MEVT 2005.).

Through a foreign exchange rate anchor and well-managed monetary policy, Morocco has held inflation rates to industrial country levels over the past decade. Morocco's inflation rate (consumer prices) is forecasted to be 2 percent in 2004, down from 2.3 percent in 2004 (MEP 2004). The Moroccan monetary authorities are expected to work to keep the inflation rate differential between Morocco and the Eurozone in check so as to maintain the competitiveness of Moroccan exports (USDS 2004).

Despite criticism among exporters that the Moroccan Dirham (MAD) has become badly overvalued, the country maintains a current account surplus. However, the decline of the US dollar in comparison with the Moroccan Dirham ($US 1 = MAD 8.7) is expected to result in a lower cost for Moroccan imports in 2005 (HCP[2] 2005.). Foreign exchange reserves are strong, with nearly $US 13 billion in reserves, the equivalent of 11 months of imports at the end of 2003 (USDS 2004).

Financial transfers of Moroccans living abroad totalled a record MAD 37.1 billion (US $ 4.36 billion) in 2004, up 7.1 percent in comparison with last year (MEP 2004). Certain policies still complicate the investment environment, such as land titling rules and a highly valued currency (Nathan 2003). The combination of strong foreign exchange reserves and active external debt management gives Morocco ample capacity to service its debt. Current external debt stands at about $US 14.3 billion or about 32 percent of GDP (Al Bawaba[2] 2004.). Morocco alleviated public debt from 48 percent of the GDP in 2000 to 30 percent in 2003 (MFT[1] 2005).

Controlling fiscal expenditures remains a priority for Morocco. Wider budget deficits are emerging, reflecting a bloated public sector. The budget deficit reached 3.2 percent of GDP in 2004 (MEP 2004). The public wage bill accounts for more than half of government expenditures. In part this reflects the decision to expand the civil service to provide jobs for the well-educated. The Moroccan government also has trouble cutting spending because it is a leading provider of needed investment capital (USDS 2004). Excluding revenues generated by privatisations, the Moroccan budget deficit amounted to 3 percent while the 2004 state-budget expected 5.7 percent deficit (MEP 2004).

2.3.2 Liberalisation and Privatisation

Morocco has pursued economic liberalisation efforts including a reform programme supported by significant lending from the World Bank and International Monetary Fund (IMF) since the early 1980s. This reform programme has led Morocco to liberalize its foreign exchange regime, lower tariffs and other trade barriers, reform the banking system, partially restrain government spending, reduce the foreign debt burden (in part through "debt-for-equity" swaps, in part through refinancing), and encourage foreign investment (now permitted in most sectors of the economy). (USDS 2004.)

Morocco has tried to cut its deficits through the privatisation of state-owned enterprises (SOEs). In 1993, 114 SOEs were selected for possible privatisation (USDS 2004). As of January 2004, 66 of these had been sold raising MAD 75.5 billion (US$ 8.67 billion) (Ministry of Finance 2005). The privatisation of public utilities is continuing particularly in the areas of water distribution, electricity and sanitation. Among the entities to be privatized also are six sugar plants, nine hotels, two banks (Banque Nationale pour le Développement Economique, Credit Immobilier et Hotelier) and the state fertilizer company, Fertima (TPCC 2005, 7.) (See section 2.3.5.1).

Without a doubt, telecommunication is the sector that has experienced the most far-reaching reforms, with the opening up of certain services to competition in 1998, the privatisation of the incumbent operator Maroc Télécom (MT) in 2000 (Arab Datanet[2] 2003). The telecommunications sector has witnessed the greatest opportunity to competition and the greatest amount of FDI in the late 1990s and early 2000s. FDI in the telecommunications sector amounted to US$ 2.3 billion in 1999 or 15 percent of the total foreign investments (NTRA[1] 2004).

The Casablanca Stock Exchange (CSE) is the third largest in Africa, after Johannesburg and Cairo. Privatized in 1996, the CSE is managed by 13 brokerage companies and regulated by an independent oversight commission similar to the SEC Foreign Exchange (TPCC 2005, 45). Privatisation transactions positively impacted on the financial Market allowing growth of capitalisation at the Casablanca Bourse (stock exchange) going up from MAD 5 billion (US$ 0.57 million) to MAD 206 billion (US$ 23.6 billion) between 1989 and 2004 (Ministry of Finance 2005).

Many believe, however, that the process of economic reform must be accelerated in order to reduce urban unemployment below the current rate of 18% (USDS 2004). The Jettou government continues to pursue reform, liberalisation, and modernization aimed at stimulating growth and creating jobs. The government focus in 2005 will be made on the institution of economic (finance, tourism, transport), social (i.e. housing, justice, education, health, rural zones development and fighting poverty) and administration reforms (MAP[1] 2005.).

2.3.3 Foreign Trade

According to the US Chamber of Commerce, the greatest barriers to trade in the kingdom are irregularities in the government procurement procedures, lack of transparent governmental and judicial bureaucracies and contraband. Although the government is diligently working to liberalize the business environment, foreign corporations still complain about these challenges. (TPCC 2005, 29.)

As a member of General Agreement on Tariffs and Trade (GATT), the kingdom has gradually removed most restrictions for imports originating from other member countries. According to the law of November 1993 relating to foreign businesses, all goods and services can be imported without a licensing requirement. In the event that imports are deemed to have a negative impact on national production, however, an import license may be required. (Info-Prod Research 2004.)

In order to import into Morocco, some documentation procedures are required. A person or entity must be registered in a register of importers and must obtain the authority to import from the Ministry of Commerce and Industry. An import registration form (Engagement D'importation) should be obtained from a Moroccan Schedule Bank for all imports into Morocco. This form facilitates both custom formalities and the payments of the invoice. (Info-Prod Research 2004.)

In recent years, export regulations have undergone a substantial amount of liberalisation. Export licenses are not required, and export sales are not subject to export tax. The sole obligation on the part of the exporter is the repatriation of export benefits. The repatriation should be performed in a 120-day period, however, the deadline can be extended in case the trade obligations require do so. Settlements relating to exports can now be made in foreign currency, and the exporter is no longer required to produce the customs declarations justifying the import of foreign currency. Similarly, the financial regulations pertaining to investment operations are now directly handled at the level of the banking institutions. (Info-Prod Research 2004.)

2.3.4 Trading Partners

Moroccan exports were valued at $US 8.73 billion in 2003. Main goods are food, beverages and tobacco 20.1%, semi processed goods 23.9%, and consumer goods (38.6%) (USDS 2004). The bulk of Morocco’s exports go to the EU 75.7% (+0.5%) mainly France and Germany. Morocco’s other main export markets outside Europe are Asian countries 8.8% (-3.6%), Arab countries 3.4% (-0.3%) the US 2.8% (-0.6%) and Brazil 2.1% (Al Ahdat 2005).

In the same period, the imports of Morocco amounted at $US 14.16 billion of food, beverages and tobacco (8.4%), energy and lubricants (15.7%), capital goods (21.4%), semi-processed goods (22.9%), and consumer goods (23.9%) (USDS 2004). The major suppliers of the country's imports are the EU 58.7%, Asian countries 16.3%, Arab countries 9% and the US (4.1%) (Al Ahdat 2005).

2.3.5 Bilateral Trade Agreements

The commercial and economic trade partnerships concluded between Morocco and many countries made the kingdom a natural platform for the European, US, African and Asian markets. Morocco is now more open to foreign business than ever. The reform program has led to advances in terms of export-promotion efforts, including everything from improvements in the legal framework and administration, to laws on investment, finances and taxation. We present here all the Moroccan bilateral FTAs and partnerships signed with the US, EU, EFTA, AMU, Turkey, and some Arab countries.

2.3. 5.1 US-Moroccan Partnership

The United States and Morocco have signed several economic agreements: namely; Bilateral Investment Treaty (BIT) in 1991; the Trade and Investment Framework Agreement (TIFA) in 1995; and the Open Skies Agreement in 2001 (Heritage Foundation 2004). These agreements guaranteed that both parties would take appropriate measures to encourage and facilitate trade in goods and services, and to establish favourable conditions for the long-term development of bilateral trade and investment. The United States and Morocco signed last June 2004 a bilateral FTA after several negations rounds. The FTA will open up Morocco's economy to greater American agricultural, equipment and service sector exports and will make Morocco more investor friendly (BUYUSA 2005.) (See chapter 5.)

2.3.5.2 EU-Moroccan Partnership

The EU-Morocco Association Agreement was signed in Brussels, on 26 February 1996, and following its ratification by the Parliaments of the 15 EU Member States, the European Parliament and the Moroccan Parliament, entered into force on 1 March, 2000. It replaces the 1976 Co-operation Agreement (EU 2003). The agreement calls for the gradual elimination of tariffs on EU-Moroccan trade in industrial goods over the next 12 years (by the year 2012) and provides duty-free access for limited quantities to some agricultural products, especially seafood products, fruits and vegetables. Morocco provides gradual reduction in duties for many EU industrial and agricultural products. First indications from Moroccan agricultural trade data indicate that the EU share has increased considerably for some products e.g., butter, cut lumber, cheese, paper pulp, ice cream and beer since the implementation of the FTA. (TPCC 2005, 33)

2.3.5.3 EFTA-Moroccan Partnership

Morocco has signed an additional trade agreement with Ministers from four EFTA States (Switzerland, Norway, Iceland and Liechtenstein). Morocco is an important trading partner for the EFTA States in the Mediterranean region and an important market for its exports, with significant growth potential. Bilateral trade in goods in 2001 amounted to $US 186 million. The EFTA exports were amounting to $US 117.9 million, whereas Morocco's exports to the EFTA States represented $US 78.7 million. Whereas the EFTA members will eliminate all restrictions on imports of industrial products, processed agricultural goods, fish and other marine products, Morocco has agreed to phase out tariffs and quotas over twelve years, while retaining the right to introduce restrictions to protect nascent or restructuring industries. (EFTA 2004.).

2.3.5.4 AMU-Moroccan Partnership

Morocco has signed free trade arrangements for all practical purposes with members of the Arab Maghreb Union (AMU), which contains Morocco, Tunisia, Libya, Mauritania and Algeria. However, the UMA is dormant, and regional economic integration has been stalled because of the Western Moroccan Sahara crisis. Algeria supports the Polisario separatists, which tries to separate Moroccan Southern Provinces, known as the Sahara, from the rest of Morocco. The territory was retrieved by Morocco in 1975 under the Madrid accords with Spain and Mauritania (MTN[1] 2005).

If Morocco and Algeria manage to create an economic zone at their borders and if Algeria and Tunisia succeed in doing the same, the borders issue will become quite futile (FFS 2005). In a survey conducted in 2003 by the American Chamber of Commerce in Morocco, 71% of respondents indicate that a comprehensive and effective FTA with Algeria and Tunisia (currently exists only on paper) would have a major positive impact on their business in Morocco. (AmCham[1] 2003)

At present, Moroccan-Algerian trade is worth $200.6 million annually (CCC 2005). This, while significant, is well down on its potential between the two North African neighbours. Why this is so is largely due not to economic difficulties but political ones. Central to these has been the continuing dispute over Western Moroccan Sahara. On this, the UN reported on January 2005 a state of deadlock, despite a major initiative in 2004 (MTN[2] 2005.).

2.3.5.5 The Agadir Agreement

Morocco, Jordan, Tunisia and Egypt signed the Agadir Agreement in November 2004, which aims at creating a Free Trade Zone between the four southern Mediterranean countries. This agreement will create an integrated market of more than 100 million people in the four countries involved. This FTA will open Arab markets between the four countries and reinforce trade relations (MAEC 2005) through removing all Non-tariff barriers and non-implementation of new non-tariff measures, excluding the dismantling of products originating from free zones in the four countries, implementing general rules of origin and implementing safeguard measures in conformity with the WTO (MFT[3] 2005.).

The Agadir agreement will help increase the marketing of Arab products instead of competing with each other. It will be an occasion for the Arab states to produce different products, because most of them are similar. By differentiating these products, the Arab states could get into international markets with good quality products (MTN[3] 2005.). Other bilateral free trade arrangements have been established with United Arab Emirates (2001) and Turkey (2005) (MFT[4] 2005).

2.3.5 Tangier Free Trade Zone

Located in the North of Morocco, lying 15 km South of Europe (see map 2), the Tangier Free Trade Zone (TFZ) aspires to be the land of opportunities par excellence for investors. Extending over a total surface area of 345 hectares, the Tangier Exportation Free Zone is managed by a company incorporated by a consortium of Banque Commerciale du Maroc (BCM), Banque Marocaine du Commerce Exterieur (BMCE) and the Societe Nationale d'Investissements (SNI) and the Compagnie Africaine (Arabic News[1] 1999). The industrial TFZ offers an ideal location for both Moroccan and foreign companies looking to take advantage of the EU-Moroccan FTA and export duty free to Europe and Morocco (TFZ[1] 2004).

Map 2: The strategic geographic position of Tangier
Source: Encarta Atlas 2005

The 88 foreign companies located in the zone (TFZ[2] 2005) may import goods duty-free and are exempt from other takes. The only requirement is that all local workers be paid directly in foreign exchange, which they are then obliged to exchange for MD at Moroccan commercial banks operating in the zone (Info-Prod Research 2004.). Of the benefits of the TFZ offers; exemption from import duty, simplified customs procedures, exemption of licence tax for 15 years, exemption of urban tax for 15 years, and exemption of VAT on goods (TFZ[1] 2004).

Tangiers possesses a strategic importance for the Moroccan economy enjoying strong logistical infrastructures. In addition to an international airport and harbour, the government is building a new transhipment port known as Tanger-Med, approximately 9 miles (15 km) from Tangier Morocco that will cost about $500 million (TPCC 2005, 9), designed to become one of the largest and most important transhipment ports on the north coast of Africa (Jafza 2005).

2.3.5 Foreign Direct Investment

In the light of the FDI theory to be highlighted in this part, the most reliable data on ongoing direct investments in Morocco is presented in this sub-chapter. The data originate mostly from the Moroccan Ministry of Foreign Trade (MFT), United Nations Conference on Trade and Development bureau (UNCTAD), Morocco Times (MTN) and other Arab information-based sources.

2.3.5.1 Investments in Morocco

The term foreign direct investment (FDI) is used to describe transactional capital transaction made by companies from one country ('the country of origin') to another country ('the host country'). The transactions entail the purchase of production resources (such as buildings, machinery, or land) or companies or stakes in them. The aim is to add value locally by means of production or services and to exercise some influence on corporate activities. Investments, that is, capital transactions with the sole aim of achieving a financial a financial return, are therefore excluded. (Jepma and Rhoen 1996, 42)

There are three different options of FDI: direct investment with total control (acquisitions and Greenfield operations), direct investment but with shared control and thirdly non-capital investment (service management contracts and franchises) (Buckley, 1995, p, 183). In many cases the process of decision-making on a FDI does not entail any selection from a number of countries. Yet, even if only one candidate is being considered, it is important to analyse thoroughly all relevant local circumstances (Jepma and Rhoen 1996, 59.).

When selecting from countries with which a company has built up contracts, large number of factors have usually been taken into account already. In considering an investment with a larger risk, these factors must all be thoroughly reviewed. These factors may be characterized as follows:

- Macro-economic and sectoral situation, and general government policy;
- Economic and political risk;
- Statuary, regulatory and institutional trading and investment climate;
- Input and factor market conditions, and economic infrastructure; and
- Physical and socio cultural factors. (Jepma and Rhoen 1996, 59)

Many developing countries now actively solicit foreign investment, offering income tax holidays, import duty exemptions and subsidies to foreign firms, as well as measures like market preferences, infrastructures and sometimes even monopoly rights. The reason for subsidizing these firms is the positive spillovers from transferring technology to domestic firms. In fact FDI plays an important part in creating jobs, but also it is considered as a source of income. But, the strong argument in favour of public support to FDI is based on the prospect for knowledge spillovers. Indeed, FDI appears as a way to get foreign capital without assuming the risk linked to the debt. Despite the controversies surrounding the benefits and cost of FDI, a number of developing countries governments have now changed their policies from restricting towards promoting foreign investment. (Bouoiyour 2003, p, 2.).

The Moroccan government has begun to address policies that hamper investment and has taken major strides in establishing Regional Investment Centres and effective commercial courts. In order to encourage foreigners to invest in Morocco, projects exceeding MAD 200 million ($US 22. 9 million) are given particular attention by the government and qualify for special conditions. They are evaluated by the Investments Commission and can benefit from attractive indirect-tax reductions. The Hassan II Fund for Social and Economic Development can also subsidize land-plots acquisition and the building of facilities. (MTN[4] 2005.)

FDI inflows to Africa rose by 28%, to $US 15 billion, in 2003, but fell short of their 2001 peak of $US 20 billion. Among the countries of the top ten recipients, Morocco was the number one recipient (see figure 4). Inflows rose from $US 480 million in 2002 to $US 2.3 billion in 2003, a 246% increase thanks to privatisations. Based on UNCTAD's Inward FDI Performance Index, Morocco performed best among African countries, improving its ranking from 62 in 2000-2002 to 32 in 2001-2003, an upward climb of 30 points. Most of this improvement can be attributed to more FDI friendly policies in the country. (UNCTAD 2004, p, 18.)

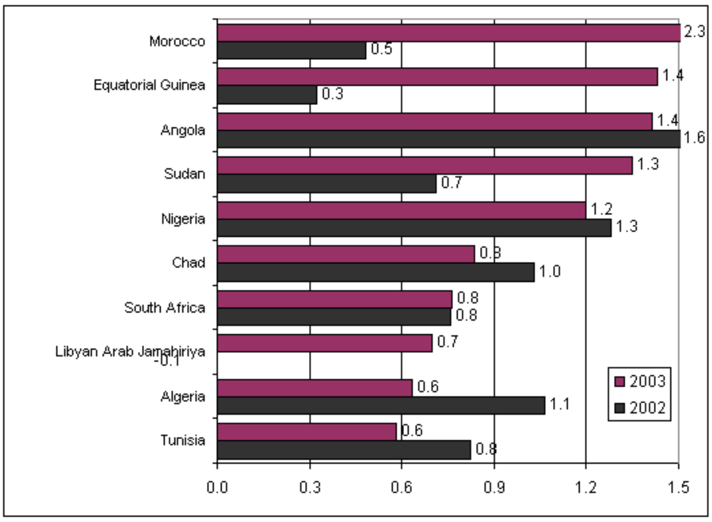

Figure 4: The top 10 recipients of FDI inflows in Africa 2002 and 2003 (Billions of dollars)
Source: UNCTAD, World Investment Report 2004

The long history of relations between Morocco and Europe, namely with the French and Spanish, retains a strong presence in the kingdom through commercial endeavours. The EU remains the largest investor in Morocco, with a share of 91% in 2003. Investments in industrial projects come on top with MAD 18.87 million ($US 2.16 million) invested, followed by real estate with MAD 2 billion ($US 229 million), services with MAD 884 million ($US 101.6 million) and telecommunication with MAD 633.5 million ($US 72,8 million) (Mena report 2004.).

Spanish and French firms dominate Morocco's trade followed by the Germans and Italians. Spanish investors ranked first in 2003 with 77%, outweighing for the first time French investors (12%) who have held the number one position for more than five years (MTN[5] 2005). Currently, there are over 600 Spanish (MTN[5] 2005) 500 French firms (French Embassy in Morocco 2003) and over 700 Franco-Moroccan joint ventures (Arab Datanet[2] 2003) established in Morocco.

Morocco is a strategic and priority market for Spain. The increase in exports to Morocco in 2004 outpaced the increase in total Spanish exports, which corroborates the dynamism of the Moroccan market. Over the first 11 months of 2004, 36.2% of Spanish exports to Africa were destined for Morocco, up 15.5% in comparison with 2003 (Spanish Ministry of Commerce and Industry 2005.). Economic ties are expected to improve with the warming atmosphere since the election of socialist Prime Minister Jose Luis Zapatero in March 2004. Zapatero succeeded Jose Maria Aznar, who had poor relations with Morocco (Al Jazeera 2005.).

On the other hand, Trade exchanges between France and Morocco have registered a remarkable progress as Morocco is deemed the firth Arab exporter to France and the second importer behind Algeria. Morocco is one of the rare Arab countries that enjoy balanced trade exchanges with France. France imported from Morocco about $US 3.42 billion of goods in 2004 and exported to the North African country what is estimated at $US 3.68 billion. (CCFA.)

Importantly, French firms continue to have the edge in recent privatisation ventures. Particularly significant privatisations include the acquisition of 51% of Maroc Télécom by the French-based Vivendi Universal (Yahoo Finance[1] 2004) and 80% stake in Morocco’s state tobacco company Régie des Tabacs Marocains (RTM) in 2003 by tobacco group Altadis. The group, which emerged from a merger of French Seita and Spanish Tabacalera in 1999, purchased RTM for MAD 14.08 billion ($US 1.6 billion)

(UNCTAD 2004, p, 71). RTM has an annual capacity of $US 838 million worth of products (Arab Datanet[3] 2003).

In the car industry, French car manufacturer Renault acquired late 2004 from the Moroccan government a 26% stake in the sole Moroccan automobile manufacturer Somaca for MAD 65 million. The deal reached by the two parties calls for Renault to buy the remainder of the government shares in Somaca (12%) in November 2005 for MAD 30 million. Somaca is expected to launch the much-awaited low-market model, Logan, in November 2005 (MTN[6] 2005.). Still, French automotive supplier Prevent opened its 7th foreign production facility in Morocco (UNCTAD 2004, p, 115).

The financial sector has also attracted substantial European interest with BNP Paribas buying out ABN AMRO Bank and expanding investment in its Moroccan branch, the BMCI Bank, which recorded a turnover of MAD 800 million ($US 91.9 million) in 2004 (BMCI-BNP 2005). In July 2001, Société Générale (SG) of France took a majority position through its local banking subsidiary, SGMP in life insurance firm, La Marocaine Vie, as part of its program to expand in the underdeveloped Moroccan insurance market (Arab Datanet[3] 2003.). Still, 20 percent stake of the Banque Centrale Populaire was sold for MAD 12 billion ($US 1.37 billion) (the first was of 21 percent in 2002) (OECD 2004, 11).

2.3.5.2 Investment Climate

The general characteristics of movement policy determine to a significant degree the characteristics of statuary, regulatory and institutional trading and investment climate relating to FDI. There are diverging governmental provisions on trade and investment, such as the level of import tariffs, qualitative restrictions (quota), the need to apply for licenses for imports and direct investments, and regulations governing health and safety, the environment and the origin of goods. The distribution of goods may be also highly regulated. The institution factors include such matters as corruption, bureaucracy, clarity and stability of regulations and the quality and reliability of the legal system and legal protection. With respects to investments in general, taxes on profits, capital and wealth are of course important, as are the charges on labour (taxes and social insurance contributions). (Jepma and Rhoen 1996, 62.).

As far as Morocco is concerned, both resident or non-resident foreign nationals are entitled to invest freely in the country and no investment operation in Morocco requires any prior authorization from the Control Exchange Office. Prior to 1996, Morocco offered foreign investors a package of investment incentives contained in various investment codes in different areas of business such as exports, tourism, industrial, mining, maritime, handicraft and real estate investments. (Info-Prod Research 2004.)

Those codes have been replaced by a new Investment Charter, promulgated by Decree No.1-95-213 of November 8, 1995. Effective as of January 1996, the new Charter set up as a framework the main objectives regarding the promotion and development of investments in Morocco within the next ten years. It also codified several existing regulations, some of which have been implemented through their inclusion in the Corporate Tax Law in 1996 (Info-Prod Research 2004).

Further, the Charter establishes that benefits for investors under previously existing laws will be maintained until expiration of their term and of the conditions for which they had been granted. The Charter gives the same preference to all sectors except for agriculture. The top five sectors Morocco is trying to develop are: banking, industry, holdings, real estate and trade. Special incentives have been made available to attract these industries; these incentives differentiate between the installation phase and the operational phase of a company. (Info-Prod Research 2004.)