CHAPTER 8

CONCLUSIONS
Morocco is a middle-income country, with a per capita GDP of around US$ 1245 in 2002. Over the last four decades, Morocco has been a moderately growing county. This moderate growth performance was the result of the transition from an economy led by the government sector to an economy where the private sector is expected to be the engine for growth.

The Moroccan government has embarked, since the early eighties, in a comprehensive macroeconomic stabilization program (the structural adjustment program -SAP-) with the support of the IMF, and the World Bank. The aim of this program was to address internal and external macro-economic imbalances and to liberalize the economy. Various economic reforms were implemented such as trade liberalization, tax reform, financial sector reform, and public enterprise reforms and privatization. The SAP achieved significant results in term of macroeconomic stabilization. The budget deficit has shown a downward trend since the late eighties. However, this performance was mainly achieved through a significant reduction in public investment rather than public consumption, and through exceptional revenues generated from privatization of state-owned enterprises; and concessions granted by the State. Recently, efforts have been made to increase the government revenues by broadening the tax base, raising domestic indirect taxes (such as value added tax) to compensate for the expected decline in import duties, and improving tax compliance through a more efficient tax collection system.

Moroccan economy has become more outward oriented over the last two decades. The share of foreign trade sector in GDP has substantially increased. By the end of the nineties, total exports and imports amounted to more than 60 percent of GDP, while they did not exceed 50 percent at the beginning of the eighties. This increasing trend can be to a large extent attributed to trade liberalization reforms implemented under the SAP.

As far as exports are concerned, the most noticeable change over the last two decades is the growing importance of industrial products. Their share stood at 23,5 percent in 1980 and jumped to 40,5 percent 1985. In 1990, the share of manufactured exports exceeded half of total exports. Moroccan exports have changed from primary commodities and low-value added products to relatively more processed products, although the change was stronger in the eighties compared to the nineties. The extent of product diversification of Moroccan foreign trade increased but it remains characterized by a high geographical
concentration. European Union continues to represent more than 60 percent of Moroccan imports and more than 70 percent of its exports. This high dependency on the European market increases the vulnerability of Moroccan economy to the adverse shocks experienced in Europe.

Although on average, Morocco attracted more FDI flows in the nineties compared to the eighties, their profile remains volatile and highly dependent on privatization revenues of large state owned enterprises. On average, FDI flows represented 1.4 percent of GDP, 6.5 percent of investment, and 5.2 percent of exports during the nineties.

The sectoral distribution of FDI flows in Morocco shows that traditionally banking sector and industry were the most attractive sectors for FDI. Their share stood at 27 and 20 percent respectively over the period 1994-98. However, Telecommunication sector has been very attractive more recently with the process of liberalization, which allowed the private entrant (MEDITEL) to compete with the state monopoly (Maroc Telecom). The share of telecommunication sector in FDI amounted to 55 percent in 1999 and 64 percent in 2000.

The share of agricultural value added in total GDP declined in the 1990s, but remains relatively high and oscillates between 15 and 20 percent depending on weather conditions. The agricultural sector provides jobs for more than 3 millions individuals which represents 40 percent of the total employment and 80 percent of the rural sector employment. The agricultural sector represents also 18 percent of total exports. A large proportion of arable land is composed of small family holdings. Modern production and storing techniques are very limited, and the fraction of irrigated area is very small (less than 15 percent of total cultivated land). Moreover, the structure of agricultural production remained broadly the same dominated by drought-sensitive crops such as cereals. The high tariff protection of wheat and sugar has distorted the incentive system favoring their production and increased Morocco’s vulnerability to droughts. Morocco is a net exporter of fruits and vegetables, and a net importer of cereals, oilseed products, and sugar.

The share of the secondary sector in GDP has remained unchanged at roughly one third of GDP, and the manufacturing sector share continues to stand at around 18 percent of GDP.
The range of goods produced by the manufacturing sector has expanded. Diversification has consisted in raising the level of processing of certain products, in particular in the mining industry (phosphate), the chemical industry (chemicals and para-chemicals), manufacturing (especially textiles and clothing), and the food industry. The development of the textiles and clothing branch, more particularly “outward processing”, can be mainly attributed to labor costs and Morocco’s geographical proximity to the European Union.

During the period 1980-2000 the labor force grew from 6.7 to 10.3 million among which 8.9 millions are employed and 1.4 million are unemployed. Unemployment rate at national level stood at 13.6 percent in 2000 compared to 7.2 percent in 1980 and 12.1 percent in 1990. However there are significant differences in unemployment rates between urban and rural areas. The urban rate of unemployment is estimated to 21.5 percent in 2000, which is equivalent to 1.15 million of unemployed.

The public sector wage bill in Morocco is large either by regional or international standards. It stands at 12.2 percent of GDP in 2001, which puts constantly pressure on the government budget and threatens macroeconomic stability. The wage bill and interest payments of public debt absorb almost three-quarters of tax revenues. Jobs offered by the public sector are overprotected and relatively well paid. Moreover, civil servants’ salaries are more sensitive to seniority and less rewarding for performance.

Over the nineties, inequality patterns in Morocco remained roughly the same. Data on the distribution of expenditure shares across population deciles are consistent with the GINI coefficient, which stagnated at around 39% at the national level. The magnitude of inequality within each area did not change either. However, the incidence of poverty in Morocco has increased from 13 percent in 1990-91 to 19 percent in 1998-99 on the basis of the poverty headcount index. As a consequence, the total number of the poor increased from 3.36 to 5.31 millions.

Poverty in Morocco continues to be intensively a rural phenomenon. In 1998-99, 27.2 percent of the population living in rural area are poor, compared to 12 percent of those in urban area. However, over the nineties the extent of poverty increased faster in urban area since the number of the urban poor increased by 98 percent, as compared to 43 percent in
rural area. Migration flows to the cities of poor people from rural area, who are looking for better opportunities, explain to a large extent this trend. Urban areas have not been able to keep up with these large migratory flows in terms of employment, affordable housing and other basic social services, which contributed to the expansion of informal activities, and vulnerable occupations.

Human capital endowment is a key factor in understanding the level of poverty incidence in Morocco. Data provided by the LSMS survey show that people without any educational level are at higher risk of poverty. Poverty incidence reached 23.2 percent among this category. It stood at 7.6 percent for those with a primary school level, and only 3.1 percent for those with secondary or university levels. From, policy making point of view, this indicates that providing education to the poor should be one of the pillars of the poverty alleviation strategy.

The risk of poverty does not completely disappear for employed people. In rural area poverty incidence is estimated to 35.4 percent among wage earners due to income volatility and seasonal nature of work provided in agricultural sector, as well as in other rural activities. In urban area, poverty incidence is the highest among the self-employed. Most of them are concentrated in small-scale commerce, traditional services or work at home. The total number of jobs provided by the informal sector units is estimated to almost 2 millions (1,92) on the basis of the national informal survey undertaken in 1999-2000. This means that roughly 40 percent of non-agriculture employment in Morocco is provided by the informal sector. The share of the informal sector amounts to 36.8 percent in industry and craft sector, and 91.2 percent in commerce and repairing activities.

The employment performance of the manufacturing sector in Morocco rapidly increased in the late eighties, it continued to increase during the nineties but at a lower rate. It grew by a yearly average of 3.6 percent from 1990 to 1994, and 1.42 percent from 1995-2000, which is very low compared to urban labor force growth boosted by a substantial increase in female participation rates, and large migration flows from rural to urban area. The clothing industry, which is the most export-oriented industry, is also the most contributing to job creation with almost 26 percent of total manufacturing sector employment. Although its share in total manufacturing employment increased from 17.3
percent in 1989 to nearly 26 percent in 2000, its pace of job creation regressed to roughly 9 percent during the early nineties and 4 percent during the late nineties.
Our econometric estimates reveal an adverse effect of import penetration on employment. In all regressions, the coefficient associated with import penetration is negative and highly significant. This result seems to be robust to the inclusion of variables such as labor productivity and labor cost. Conversely, export orientation as measured by the share of sales on foreign markets tends to exert a positive impact on employment. Labor productivity, measured by value added per employee, had a negative effect on employment. This result needs to be cautiously interpreted due to the skill composition effect. Labor productivity, as defined here, does not make any distinction between skilled and unskilled labor.

Labor cost as measured by the gross labor cost per employee does not seem to have any impact on employment once labor productivity, import penetration and export orientation are accounted for. This result may be attributed to the functioning of the labor market. Both theoretical and empirical literature show that the net effect on employment of trade reforms depends on wage responsiveness. Finally, manufacturing investment exerts a positive and significant impact on employment. These findings are very useful in terms of their policy implications. Since liberalization process is irreversible, the only way to boost employment in manufacturing sector is by addressing the issue of private investment. This means better infrastructure and services, less institutional and legal obstacles, and easier access to funds in particular for small and medium firms.

Our tentative econometric work to assess the relationship between trade and poverty is based on the manufacturing sector data at two-digit level from 1990 to 2000. The objective is to investigate the impact of changing Moroccan trade patterns as reflected by import penetration and export orientation of manufacturing industries on the wage earners in these industries. The econometric estimates show that changing trade patterns as such, does not have any significant impact on average wage variation in the manufacturing industries in Morocco. This result may reflect the rigidity of wages and the lack of flexibility on the labor market. However, it needs to be interpreted cautiously since part of it may be generated by the skill composition effect which is not captured by available data used. It can also be attributed to an increasing trend of female participation in export oriented industries. There is also evidence that women tend to accept lower wages, harder working conditions and to be less inclined to belong to unions in comparison with men.
As expected, average wage tends to be highly sensitive to labor productivity improvement. Those workers that can improve their productivity through their access to training programs, for instance, are likely to bargain for higher wages either in their original firms or through their mobility to other firms. However, those workers who are less productive, or those who lose their specific skills due to new generation of technology are more likely to suffer. The official minimum wage determines substantially the average wage in the manufacturing sector. Finally, foreign ownership change does not seem to have any incidence of wage variation. The same finding is valid for unemployment rate. This last result indicates that there is not much connection between excess labor supply as reflected by the size of unemployment and the process of wage determination in Morocco.

In terms of future prospects, Morocco face a number of challenges. Its economy remains highly sensitive to climatic shocks, and agriculture continues to represent an important sector (between 14 and 20 percent of GDP and around 40 percent of the labor force). The complexity of real estate structure, the multiplicity of ownership status, the delay in implementing an adequate land reform, and the low level of human capital worsen even more the performance of agricultural sector. The incentive framework designed to promote agriculture is biased toward large farmers and weather-sensitive crops. Recent terrorist attacks in Casablanca are strong signals that reveal the urgent need for substantial and credible efforts towards rural area and the poor in general.

Although, FDI flows have experienced a growing trend during the last decade, their size remains substantially dependent on the privatization process. The current level of FDI remains below the country’s potential and can be highly promoted by tackling efficiently different barriers to investment. In addition foreign ownership in the manufacturing sector does not appear to be connected to the rest of the economy, and its mainly located in labor-intensive industries to take advantage of cheap labor cost.

Illiteracy is another important problem in Morocco. Its rate stands at 43 percent in 2003, which is extremely high. Finally, the highly changing international context entails additional challenges for the Moroccan economy.
Further progress in reforms is still needed to allow the country to face the consequences of the forthcoming WTO negotiations, the Euro-Mediterranean Free Trade Area and the European Union membership of Eastern European countries. Morocco is also strengthening its trade relationships with countries in the region such as Tunisia, Egypt and Jordan. An industrial strategy aiming at creating an economic environment favorable to domestic and foreign investment is also taking place.

Institutional constraints to investment are increasingly highlighted as a priority in making business environment more attractive and hence boosting the private sector activities and enhancing economic growth. Recently, Morocco has put stress on improving governance and fighting legal and administrative red tapes. Greater autonomy at local levels is beginning to take place and need to be strengthened. The local governors are taking the lead in coordinating and promoting investment and social sector activities. However, without clear accountability, checks and balances and accurate monitoring system, decentralization efforts may produce perverse effects.

Finally, a program of “industrial restructuring” in order facilitate upgrading of firms’ technology as to improve their competitiveness has been designed. This program involves providing firms with necessary funding to carry out their investment projects. However, the flow of funding seems very slow and tend to benefit large-scale firms at the expense of small and medium firms which are perceived as highly risky by banks. The threat on manufacturing firms, particularly small and medium ones, is real due to the increasing competition both on the local and international markets.