

2000 Country Reports on Economic Policy and Trade Practices

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MOROCCO

Key Economic Indicators

(Millions of U.S. dollars unless otherwise indicated)

	1998	1999	2000	1/
<i>Income, Production and Employment:</i>				
Nominal GDP 2/	36,179	34,871	34,403	
Real GDP Growth (pct) 3/	6.3	-0.7	0.7	
GDP by Sector:				
Agriculture	5,911	5,161	4,043	
Manufacturing	6,040	6,033	5,908	
Services	6,833	6,520	6,305	
Government	4,378	5,022	5,037	
Per Capita GDP (US\$)	1,303	1,235	1,187	
Labor Force (urban 000s)	5,137	5,263	5,411	
Urban Unemployment Rate (pct)	19.1	22.4	23.5	
<i>Money and Prices (annual percentage growth):</i>				
Money Supply Growth (M2)	7.7	10.2	4.8	
Consumer Price Inflation	2.7	0.7	2.5	
Exchange Rate (DH/US\$ annual average)				
Official	9.59	9.84	10.4	
Parallel	N/A	N/A	N/A	
<i>Balance of Payments and Trade:</i>				
Total Exports FOB 4/	7,279	7,346	7,574	
Exports to U.S. 4/	198	251	N/A	
Total Imports CIF 4/	10,255	10,765	11,428	
Imports from U.S. 4/	643	703	N/A	
Trade Balance 4/	-2,974	-3,419	-3,854	
Balance with U.S. 4/	-445	-452	N/A	
External Public Debt (US\$ billions)	19.3	17.5	16.5	
Fiscal Deficit/GDP (pct) 5/	3.5	2.3	3.5	
Current Account Deficit/GDP (pct)	3.1	0.8	2.4	
Debt Service Payments/GDP (pct)	8.3	8.4	N/A	
Gold and Foreign Exchange Reserves	4,450	6,005	4,800	
Aid from U.S. 5/	12.6	16.3	53.1	
Aid from All Other Sources	N/A	N/A	N/A	

- 1/ 2000 figures are all estimates based on available monthly data in October.
- 2/ GDP at factor cost.
- 3/ Percentage changes calculated in local currency.
- 4/ Merchandise trade.
- 5/ Fiscal Year Basis.

1. General Policy Framework

One year into his reign, King Mohammed VI has demonstrated the energy and determination to reform Morocco's economy and to deepen its democratic structures. King Mohammed's extensive travel throughout the country has earned him tremendous respect among his people. The King has taken a number of bold steps in his first year on the throne, including replacing the powerful Minister of Interior Driss Basri in November 1999 with Ahmed Midaoui, a Ministry of Interior veteran with a reputation as a reformer. The King has also established a Royal Commission on Investment to improve Morocco's competitiveness in attracting foreign investment.

Relatively strong macroeconomic indicators coupled with stubborn structural problems characterize the Moroccan economy. Morocco's inflation levels are on par with industrialized countries, and foreign currency reserves provide approximately six months of import coverage. However, economic growth has been anemic in Morocco over the last decade, partially as a result of dependence on a drought-prone agricultural sector. Two consecutive years of drought have led the economy to shrink by 0.7 percent in 1999, with growth predictions in 2000 of 0.7 percent. Unemployment in Morocco is high, with urban unemployment in excess of 23 percent.

The government headed by Prime Minister Abderrahmane Youssoufi has made progress in reforming Morocco's economy. Under Youssoufi's government, important steps have been taken to make the public tender process more transparent, update Morocco's intellectual property rights legislation, develop a specialized commercial court system, and aggressively liberalize the telecommunications market. The government has embraced a USAID-funded Investor Roadmap process to identify and resolve common barriers to foreign and domestic investment through the U.S.-North Africa Economic Partnership.

Despite these efforts, there is frequent criticism that the government is not moving quickly enough on economic reform. The government bureaucracy is extensive and, despite a recent government reshuffle, considered top-heavy with 33 ministers.

2. Exchange Rate Policies

The Moroccan dirham is convertible for all current transactions (as defined by the International Monetary Fund's Article VIII) as well as for some capital transactions, notably capital repatriation by foreign investors. Commercial banks provide foreign exchange for these transactions upon presentation of documents. Although Moroccan companies may borrow abroad without prior government approval, investment abroad by Moroccan individuals or corporations is subject to approval by the Foreign Exchange Board. For those projects that do

not directly benefit Morocco, approval is routinely denied. Private Moroccans continue to face several foreign exchange restrictions, notably against use of international credit cards, thus preventing the growth of international e-commerce in Morocco.

The central bank sets the exchange rate for the dirham against a basket of currencies of its principal trading partners, particularly the French franc and other European currencies. The rate against the basket has remained steady since a nine percent devaluation in May 1990, with changes in the rates of individual currencies reflecting changes in cross rates. Due to higher rates of inflation than its trading partners, Morocco's real effective exchange rate has tended to appreciate at a moderate pace in recent years, reaching 19 percent in 1999. Nevertheless, the government argues consistently against devaluation. The large weight given to European currencies in the basket results in a greater volatility of the dollar than the European currencies against the dirham, increasing the foreign exchange risk of importing from the United States as compared to importing from Europe. The IMF and World Bank have urged the Moroccan government to introduce greater flexibility into its exchange rate regime, to help boost exports and promote growth.

3. Structural Policies

The 1992 Foreign Trade Law committed Morocco to the principles of free trade, reversing the legal presumption of import protection. Quantitative restrictions were replaced with tariffs (both ad valorem and variable) on the importation of politically sensitive items such as flour, sugar, tea and cooking oil.

Interest rate policy has also changed in recent years. In 1994 the government revised the interest rate ceilings on bank loans. The new ceiling is set at a three to four percent markup over the rate received on deposits, including the below-market rates on required deposits. The effect of the change is to lower the interest rate ceilings, although real rates remain high.

Morocco has a three-part tax structure consisting of a value-added tax, a corporate income tax, and an individual income tax. The investment code passed by the parliament in October 1995 reduced corporate and individual income taxes, as well as many import duties. The code also eliminated the value-added tax on certain capital goods and equipment.

4. Debt Management Policies

Morocco's foreign debt burden has declined steadily as a result of active debt management in recent years. Foreign debt fell from 128 percent of GDP in 1985 to about 50 percent of GDP in 2000. Similarly, debt service payments before rescheduling, as a share of goods and services exports, fell from over 58 percent in 1985 to 27.6 percent in 1999. The last Paris Club rescheduling took place in 1992. The government does not foresee the need for further Paris Club rescheduling, although it is pursuing other forms of debt relief with major official creditors. Since 1996, France and Spain have authorized debt-equity swaps covering 20 percent of eligible Paris Club debt. In October 1999 the Paris Club endorsed an increase to 30 percent in the Morocco debt-swap ceiling.

5. Aid

While less than 10 percent of U.S. aid was directed to military assistance in fiscal years 1998 and 2000, military assistance in FY 1999 increased to 25 percent of U.S. aid as a result of \$4 million in foreign military financing (FMF). The United States provided \$1.5 million in FMF in FY 2000. In FY 2000 the United States provided \$40 million in food aid to help combat a serious drought.

6. Significant Barriers to U.S. Exports

Import Licenses: Morocco has eliminated import-licensing requirements on a number of items in recent years. Licensing requirements remain for firearms, used clothing, used tires and explosives.

Tariffs: Tariffs have been gradually reduced in recent years. The maximum tariff for most goods is 35 percent, although the range of tariffs is 2.5 to 300 percent, with cereals facing the highest tariffs. Despite the downward trend, tariffs on some products have increased as quantitative restrictions were replaced with higher tariffs. For example, following the elimination of licensing requirements, tariffs on dairy products, cereals, vegetable oils and sugar have increased. There is also a 10 to 15 percent surtax on imports of most goods as well as a value-added tax of up to 20 percent. The Morocco-EU Association Agreement, which went into effect on March 1, 2000, will gradually eliminate tariffs on most industrial products imported from the European Union by 2012.

Services Barriers: Barriers in the services sector have fallen as Morocco conforms to its WTO requirements. In November 1989 Parliament abrogated a 1973 law requiring majority Moroccan ownership of firms in a wide range of industries, thus eliminating a barrier to U.S. investment in Morocco. In 1993 the Moroccan government repealed a 1974 decree limiting foreign ownership in the petroleum refining and distribution sector, which allowed Mobil Oil to buy back the 50 percent government-owned share of Mobil's Moroccan subsidiary in 1994. Currently, the government is considering a draft law that would place caps on foreign investments in the insurance sector.

Standards, Testing, Labeling and Certification: Morocco applies approximately 500 industrial standards based on international norms, primarily for packaging, metallurgy and construction. Sanitary regulations apply to virtually all food imports. Meat should be slaughtered according to Islamic law. The government does not require locally registered firms to apply ISO 9000 usage. The use of the metric system is mandatory.

Investment Barriers: The government encourages foreign investment. The Parliament passed a new investment code in 1995 which applies equally to foreign and Moroccan investors, except for the foreign exchange provisions which favor foreign investors. Unlike the previous sectoral investment codes, the advantages offered under the new code are to be granted automatically. There are no foreign investor performance requirements, although the new code

provides income tax breaks for investments in certain regions, and in crafts and export industries. Foreign investment is prohibited in certain sectors of the economy, including the purchase of agricultural land and investment in the phosphate sector.

Government Procurement Practices: While government procurement regulations allow preferences for Moroccan bidders, the effect of the preference on U.S. companies is limited. The Moroccan government has placed an increasing emphasis on transparency. Virtually all of the government procurement contracts that interest U.S. companies are large projects for which the competition is non-Moroccan (mainly European) companies. Many of these projects are financed by multilateral development banks, which impose their own nondiscriminatory procurement regulations.

Customs Procedures: In principle, customs procedures are simple and straightforward, but in practice they have been marked by delays. The Customs Administration has launched a successful program to speed up the customs clearance process. Average processing time has fallen from several days to several hours. A commercial invoice is required, but no special invoice form is necessary. Certification as to country of origin of the goods is required.

7. Export Subsidies Policies

There are no direct export subsidies, although the 1995 investment code provides a five-year corporate income tax holiday for export industries. In addition, importing inputs for export industries receive a temporary admission scheme that includes the suspension of duties and licensing requirements. This scheme includes indirect exporters (local suppliers to exporters). Finally, a "prior export" program exists, whereby exporters can claim a refund on duties paid on imports that were subsequently transformed and exported.

8. Protection of U.S. Intellectual Property

Morocco has a relatively complete regulatory and legislative system for the protection of intellectual property, but lacks strong enforcement. Morocco is not on the Special 301 Watch List or Priority Watch List, but is a member of the World Trade Organization (WTO) and in compliance with its obligations under the Trade Related Aspects of Intellectual Property (TRIPS) Agreement. Morocco belongs to the World Intellectual Property Organization, the Bern Convention for the protection of literary and artistic works (copyright), the Universal Copyright Convention, the Paris Convention for the protection of industrial property (patent and trademark), the Brussels Satellite Convention, and the Madrid Agreement Concerning the International Registration of Marks (as revised at Nice, 1957).

Copyright and Patents: The Moroccan Parliament recently passed legislation that increases protection for computer software. Morocco's new commercial courts recently ruled in Microsoft's favor in two cases against software piracy. Requests for patent protection are filed with the Moroccan National Industrial Property Office in Casablanca.

Trademarks: Trademarks are filed in Casablanca. Counterfeiting of clothing, luggage,

and other consumer goods is illegal but not uncommon, primarily for local sales rather than export.

9. Worker Rights

a. *The Right of Association:* Workers are free to form and join unions throughout the country. The right is exercised widely but not universally. About six percent of Morocco's nine million workers are unionized, mostly in the public sector. The unions are not completely free from government interference. Narrowly focused strikes continue to occur. Work stoppages are normally intended to advertise grievances and last 48-72 hours. Unions maintain ties to international trade secretariats.

b. *The Right to Organize and Bargain Collectively:* The protection of the right to organize and bargain collectively is implied in the Constitution and Labor Law. The government protections are generally enforced more in larger companies and in the public sector, and are rather unlikely in the informal sector. While the laws governing collective bargaining are inadequate, collective bargaining has been a long-standing tradition in some parts of the economy, notably heavy industry, and is becoming more prevalent in the service sector.

There is no law specifically prohibiting anti-union discrimination. Employers dismiss workers for union activities regarded as threatening to employer interest. Although the courts have the authority to reinstate such workers, they are unable to enforce rulings that compel employers to pay damages and back pay.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is prohibited in Morocco.

d. *Minimum Age for Employment of Children:* The law prohibits the employment of any child under 14 years of age. Special regulations cover the employment of children between the ages of 14 and 16. In practice, however, children are often apprenticed before age 12, particularly in the informal handicraft industry. The use of minors is common in this informal sector of the economy, which includes rug making, ceramics, woodworking, metalworking and leather goods. Children are also employed informally as domestics and usually receive little remuneration. Child labor laws are generally well observed in the industrialized, unionized sector of the economy but not in the informal sector. In September 1998 the Government of Morocco adopted the International Labor Organization's Convention 138 on the prohibition of child labor.

e. *Acceptable Conditions of Work:* The minimum wage is about \$180 a month, a level above per capita income. It is not enforced effectively in the informal sector of the economy, however. It is adhered to fairly well in the industrialized, unionized sectors, where most workers are also generally paid between 13 and 16 months salary, including bonuses, each year.

The law provides for a 48-hour maximum workweek with no more than 10 hours any single day, premium pay for overtime, paid public and annual holidays, and minimum conditions

for health and safety, including the prohibition of night work for women and minors. As with other regulations and laws, these are not universally observed in the informal sector.

f. *Rights in Sectors with U.S. Investment:* Worker rights in sectors with U.S. investment, all of which is in the formal, industrial sector of the Moroccan economy, do not differ from those described above.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

(Millions of U.S. dollars)

Category	Amount
Petroleum	18
Total Manufacturing	49
Food & Kindred Products	34
Chemicals & Allied Products	13
Primary & Fabricated Metals	2
Industrial Machinery and Equipment	0
Electric & Electronic Equipment	0
Transportation Equipment	1
Other Manufacturing	-1
Wholesale Trade	(1)
Banking	(1)
Finance/Insurance/Real Estate	0
Services	0
Other Industries	0
TOTAL ALL INDUSTRIES	34

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.