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The Political Economy of State-Business Relations in Morocco

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Abstract

This thesis seeks to understand how state-business relations are affected by wider societal transformations. These transformations influence the potentially crony capitalist type of state society relations. I analyzed the evolution of state-business relations in Morocco. I highlighted three different factors which affected state-business relations and potentially can offset negative consequences of crony capitalism. Fragmentation of state institutions, political factions and economic actors and the maintenance of cross-cutting alliances by the monarchy have resulted in a fragmented-multiclass state. In addition, the changing nature of the role of the state in the economy had profound implications on state-business relations in Morocco. Paradoxically, the fragmented nature of Morocco, which is the result of cross-cutting coalitions between the monarchy and society, meant that the state did not fall exclusively in the hands of private interests. The pivotal position of the monarchy in economic and political life has enabled the monarchy to fragment opposition and forge diverse alliances to maintain its support-base. My theoretical approach using a macro-historical analysis coupled with process tracing of various policy domains proved to be a useful methodology for this type of research which falls in the nexus of politics and economics. Given this my thesis made a contribution to both Middle East studies as well as the wider literature on state-business relations. In addition, my research contributes to the wider debate on the resilience of monarchies in the aftermath of the Arab spring.

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List of Abbreviations

AMIP	Association Marocaine de l'Industrie Pharmaceutique
AMITH	Association Marocaine du Textile et de l'Habillement (Moroccan Association of Textile and Clothing Manufacturers)
AMMG	Association Marocaine du Médicament Générique
AMO	Assurance Maladie Obligatoire
ANHI	Agence Nationale pour l'Habitat Insalubre
APEBI	Federation des technologies de l'information, des telecommunications et de l'offshoring
AUC	Agence Urbaine de Casablanca
BAM	Bank Al-Maghrib (Central Bank)
BCG	Boston Consulting Group
BCM	Banque du Commerce Marocain
BCP	Banque du Crédit Populaire
BEPI	Bureau d'Etudes et Participations Industrielles
BMCE	Banque Marocaine du Commerce Extérieure
BNDE	Banque National pour le Développement Economique
CIH	Crédit Immobilier et Hôtelier
CDG	Caisse de Dépôt et de Gestion
CDT	Confédération Démocratique du Travail
CGEM	Confédération Générale des Entreprises du Maroc
DCEP	Division de la Coordination Economique et du Plan (Division of Economic Coordination and Planning)
EU	European Union
FAR	Forces Armées Royales (Royal Armed Forces)
FDIC	Front pour la Défense des Institutions Constitutionnelles (Front for the Defence of Constitutional Institutions)
GATT	General Agreement on Tariffs and Trade
IBRD	International Bank for Reconstruction and Development

IMF	International Monetary Fund
INDH	Initiative Nationale du Développement Humain (National Development Initiative)
LVE	La vie économique
MFA	Multi-fibre arrangement
MIS	Maroc Innovation et Sante
MTD	Mouvement pour tous les Démocrats
MP	Mouvement Populaire
MPDC	Mouvement Populaire Démocratique et Constitutionnel
OCP	Office Cherifien de Phosphate
ONA	Omnium Nord Africain
PAM	Parti Authenticité et Modernité
PJD	Parti de la Justice et du Développement
PPS	Parti du Progrès et du Socialisme
RAMED	Regime d'Assistance Médicale aux Economiquement Démunis
RNI	Rassemblement national des indépendants (National Rally of Independents)
SPC	Superior Planning Council
SECIM	Société d'Etudes et de Coordination Industrielle Marocaine
SNI	Société Nationale d'Investissement
SOMACA	Société Marocaine de Constructions Automobiles
UC	Union Constitutionnelle
UGTM	Union Générale de Travailleurs Marocains
UMA	Union Marocaine de l'Agriculture (Moroccan Farmers Union)
UMT	Union Marocaine du Travail
UNFP	Union Nationale des Forces Populaires
USFP	Union Socialiste des Forces Populaires
VSBP	Villes sans Bidonvilles programme (Cities without Slums)
WTO	World Trade Organisation

List of Tables and Figures

1. Introduction

"He who lacks the audacity to stand up boldly for his rights, or who lacks the protection of the influential with respect to the system of justice, it is advisable that he abstains from commerce, for he will expose himself to ruin and the loss of his goods; he will, in a way, be devoured by the other merchants and will fail to see the law applied to them."

- Ibn Khaldun (1332-1406 A.D.)

1.1 Research Question and Argument

The Arab uprisings, which started in Tunisia in 2010, have been largely about a quest for basic freedoms. The frustrations of the populations were rooted in both political and socio-economic issues. One striking aspect of the Arab Spring, which deservedly gained attention, was the uneven spread and intensity of the protests. In particular, how the monarchies in the Middle East and North Africa were spared the same upheavals that countries like Egypt, Libya and Tunisia went through. Except for Bahrain, the protests in the monarchies were less widespread and intense than in the Arab republics.[1]

Another puzzling feature of the Arab Spring is that monarchies and the republics in the Middle East shared a development model that had been failing to deliver sustainable development for decades. Unemployment and slower growth rates since the 1980s meant that the social contract of the first few post-independence decades was not working anymore.[2] However, economically there were no signs why the uprisings took place at that particular moment in time. "By 2011, on the eve of the revolts, there was no singular economic shock to

[1] A notable exception is Algeria, which was spared the same level of societal unrest which occurred in Tunisia, Egypt and Syria.

[2] Tarik M. Yousef, "Development, Growth, and Policy Reform in the Middle East and North Africa since 1950," *Journal of Economic Perspectives* 18:3 (2004): 108.

point to as a candidate for igniting the uprisings. Subsidies were not being cut; unemployment, while high, was not rising; and growth rates and investment ratios were on the rise and at comfortable levels."[3] Regarding certain socio-economic aspects, some monarchies were performing even worse than the republics that went through serious upheavals. For example, growth rates were lower in Morocco and Jordan than in Tunisia in 2010.

There are several ongoing debates regarding the appropriate interpretation of the origins of the Arab Spring. Some put more emphasis on how the regime's "refusal to tolerate active popular political participation in the process of governance would act as the driver for the crises they faced".[4] While others emphasized the economic origins of the Arab Spring, by pointing to the fact "that there was, in fact, a significant 'economic' element to the uprisings linked to the integration of Arab countries into the world economy".[5] More specifically, the way economic reform was implemented in the past two decades, which had given rise to crony capitalism.[6]

Crony capitalism[7], with a high degree of personalized relationship instead of an institutionalized one, has been, to a varying degree, a feature of state-business relations in the Middle East.[8] More generally speaking crony capitalism can be defined as patrimonialism, neo-patrimonialism or prebendalism. Weber's patrimonialism refers to a system of authority

[3] Melani Cammett and Ishac Diwan, "Conclusion: The Political Economy of the Arab Uprisings," in *A Political Economy of the Middle East,* ed. Alan Richards and John Waterbury (Boulder: Westview Press, 2013), 413.
[4] George Joffé, "The Arab Spring in North Africa: Origins and Prospects," *The Journal of North African Studies* 14:4 (2011): 508.
[5] Michele Pace and Francesco Cavatorta, "The Arab Uprisings in Theoretical Perspective - An Introduction," *Mediterranean Politics* 17:2 (2012): 130.
[6] Pace and Cavatorta, "The Arab Uprisings," 129.
[7] "Crony capitalism is usually thought of as a system in which those close to the political authorities who make and enforce policies receive favors that have large economic value." Stephen Haber, "Introduction: The Political Economy of Crony Capitalism," in *Crony Capitalism and Economic Growth in Latin America: Theory and Evidence,* ed. Stephen Haber. (Stanford: Hoover Institution Press, 2002), xii.
[8] Adeel Malik and Bassem Awadallah, "The Economics of the Arab Spring," *World Development* 45 (2013): 299.

whereby "the object of obedience is the personal authority of the individual which he enjoys by virtue of his traditional status. The organized group exercising authority is, in the simplest case, primarily based on relations of personal loyalty, cultivated through a common process of education."[9] A more recent application of Weber's type of domination is neo-patrimonialism which is defined as "a form of organisation in which relationships of a broadly patrimonial type pervade a political and administrative system which is formally constructed on rational-legal lines. Officials hold positions in bureaucratic organisations with powers which are formally defined but exercise those powers…as a form…of private property."[10] This resembles the concept of prebendalism in which "state offices are regarded as prebends which can be appropriated by officeholders, who can use them to generate material benefits for themselves and their constituents and kin groups."[11] In the above mentioned types of political systems, rents[12] and rent-seeking[13] play an important role. Such systems provide incentives for the pursuit of rents. Rent-seeking behaviour can lead to corruption and the misallocation of economic resources. Tunisia in the last period before the removal Ben Ali is a case in point. In addition, there are also political consequences of crony capitalism. Overlapping networks between policymakers and economic actors make reform of such crony capitalist systems politically more difficult. At a social level, the level of corruption leads to the increased feeling of social injustice among larger groups in society. The feeling of social injustice is often the

[9] Max Weber cited by Mounira M. Charrad and Julia Adams, "Introduction: Patrimonialism, Past and Present," *Annals of the American Academy of Political and Social Science* 636 (2011): 7.
[10] Christopher Clapham, *Third World Politics,* (London: Helm, 1985), 48.
[11] Richard Joseph, "Nigeria: Inside the Dismal Tunnel," *Current History* 95:601 (1996): 195.
[12] Rents can be defined in a variety of ways. Mushtaq Khan refers to rents as "income which is higher than the minimum which an individual or firm would have accepted given alternative opportunities." Mushtaq H. Khan and Jomo K.S., "Introduction," in *Rents, Rent-seeking and Economic Development*, ed. Mushtaq H. Khan and Jomo K.S. (Cambridge: Cambridge University Press, 2000), 5. This is closely related to the definition provided in microeconomics with its focus on opportunity costs. However, rents in public choice theory can also be defined as the "excess payments that are gained as a result of government laws, policies or regulations." Michael P. Todaro and Stephen Smith, *Economic Development* (Harlow: Pearson Education Limited, 2015), 603. Defined in the public choice theory tradition, one could regard rents as income derived from an asset which is not a product of an investment.
[13] Rent-seeking behavior is defined as "any activity directed toward the pursuit of politically mediated economic gains." (Heydemann, 2004, p. 29). Khan defines rent-seeking as "activities which seek to create, maintain, or change the rights and institutions on which particular rents are based." (Ibid., 5).

result of (perceived) inequality, which in turn antagonizes large sections of society vis-à-vis the regimes.

Some countries, like Morocco, weathered the storm despite the crony capitalist traits they shared with countries like Egypt and Tunisia. It appears that many of the negative aspects of crony capitalist systems may have been offset by other social transformations in countries. This thesis seeks to understand how state-business relations are embedded within wider social and political transformations. As such my research fills a gap in the literature on the political economy of the Middle East. What seems to have been missing in analysis prior to the Arab Spring is "how such [market, sic] reforms, whatever their intended outcome, impacted on society more broadly, what kind of groups became disconnected from the regime and from politics and 'the political' in general and what kind of social networks were being transformed or revived".[14]

I argue in this thesis that a fruitful line of enquiry to fill this gap is to focus on the domestic mechanisms through which regimes implement economic policies, promote socio-economic development and interact with economic actors. The argument put forward in this thesis is that three factors offset the potentially negative consequences of crony capitalism, namely the building of cross-cutting coalitions, the fragmentation of political and economic forces and the changing nature of the role of the state in socio-economic development. More specifically, it is the building of cross-cutting coalitions between the regime and social groups and the timing of such coalition-building efforts that can provide a more in-depth insight in how these regimes organized their political economy prior to the Arab Spring.

[14] Pace and Cavatorta, "The Arab Uprisings," 131.

1.2 Case Selection, Explanatory Framework, Methods and Sources

1.2.1 The Case for Morocco

Morocco provides a good case study for this research. It is a resource-scarce monarchy with a long tradition of state-business relations. It witnessed large protests in which slogans were directed specifically against "the system" (and not as such against the ruling monarchy). Although the Moroccan configuration of state-business relations did not differ to a large extent from other countries in the region, it still managed to survive, albeit with some reforms. However, the basic tenants of the system are still in place. Explaining this regime survival by pointing out to the speed with which the regime reacted, financial support from Gulf states, and the timing of its reform efforts fail to explain why the regime was able to react in time and how it managed to redraw ties it had with different segments of society. For the present purposes it is of interest to seek an understanding of the specific nature and evolution of state-business relations in Morocco prior to the Arab Spring.

Morocco has maintained a fairly liberal economic outlook throughout the post-independence period, and it was also one of the first countries in the Middle East and North Africa to adopt a structural adjustment programme in 1983. The share of the private sector in the economy subsequently increased.[15] At the same time, the state encouraged the private sector to become more organized. Of equal importance is the fact that almost all the associations which represent different sectors of the economy, were set up after the structural adjustment programme started in 1983. Of the thirty associations that are part of the national employers federation, a third were created after 2000 and nineteen after 1995, the year the successful negotiations for an Association Agreement with the EU were completed. This means almost two-thirds were created twelve years after the adjustment programme started.

[15] Najy Benhassine et al., *From Privilege to Competition: unlocking private-led growth in the Middle East and North Africa,* (Washington: The World Bank, 2009), 26.

More interestingly for this research is that although Morocco continued opening up its economy and changing many of its laws, it is also noteworthy for the changed and multi-dimensional role of the state. The state spurred an investment drive in infrastructure in the early 2000s. At the same time, it performed the function of enabler through free economic zones and support programmes for the private sector. Its welfare function became more important, as growth was linked to improvements for the country's poor. For each of these different roles, agencies and programmes were set up, leading to a myriad of institutions. Whether and how this fragmentation of the state affects state-business relations is part of the question being addressed in this thesis.

1.2.2 Historical Institutionalism as a Theoretical Approach

This research is situated within the domain of historical institutionalism, which allows for the possibility to focus on long-term processes. Historical institutionalisms' relevance for the present research lies in the emphasis on the "institutional organization of the polity or political economy as the principal factor structuring collective behaviour and generating distinctive outcomes".[16] The core features of historical institutionalism are the focus on the role of power, path dependency and the unintended consequences of institutions. Institutions are defined as "the formal or informal procedures, routines, norms and conventions embedded in the organizational structure of the polity or political economy. In general, historical institutionalists associate institutions with organizations and the rules or conventions promulgated by formal organization".[17]

[16] Peter A. Hall, and Rosemary Taylor, C.R., "Political Science and the three new institutionalisms", *Political Studies* 4: 5 (1996): 937.
[17] Ibid., 938.

An important concept widely used in historical institutionalism is critical juncture which refers to "relatively short periods of time during which there is a substantially heightened probability that agents' choices will affect the outcome of interest."[18] The aim is to use a theoretically guided narrative to analyse the occurrence of such critical junctures in Morocco's political economy and the repercussions for state-business relations. A macro-historical approach is coupled with detailed process-tracing in order to analyse the factors affecting state-business relations in Morocco.

The explanatory framework used to account for Morocco's state-business relation consists of three elements. Firstly, the enduring legacy of fragmentation, which originated in the state-formation period. Secondly, the shifting coalitions on which the regime bases its support. And thirdly, the changing role of the state in socio-economic development. A process-tracing analysis is conducted by looking at the interaction between the state, societal groups, and economic and political actors.

Process-tracing is chosen as a method in order to delineate patterns of interaction. Its suitable as a method for the present research because "process tracing focuses on the unfolding of events or situations over time. Yet grasping this unfolding is impossible if one cannot adequately describe and event or situation at one point in time. Hence, the descriptive component of process tracing begins not with observing change or sequence, but rather with taking good snapshots at a series of specific moments. To characterize a process, we must be able to characterize key steps in the process, which in turn permits good analysis of change and sequence".[19]

[18] Giovanni Capoccia and R. Daniel Kelemen, "The Study of Critical Junctures: Theory, Narrative, and Counterfactuals in Historical Institutionalism," *World Politics* 59 (April 2007), 348.
[19] David Collier, "Understanding Process Tracing," *PS: Political Science and Politics* 44:4 (2011): 824.

Much has been written about the drawbacks of single case studies, in terms of proving or disproving a certain hypothesis. Having chosen to approach my research through a multiple level analysis approach, it is therefore necessary to use in-depth examination of specific policy measures. By looking at the main business association and working down via a sector association, a more comprehensive analysis is provided of state-society relations, and more specifically state-business relations, in Morocco. The choice of policy areas, to be traced and analysed using a long time horizon unearths detailed data. Such data, being of a nuanced and complex nature is rich enough to generate hypotheses on these relationships. Combining an overview of sector cases with a macro-historical study and a focus on specific policy areas of one case study country generates enough data for empirically sound conclusions. An attempt will be made to generate hypotheses that can be replicated for research on state-business relations in other countries in the Middle East and North Africa.

The focus within this single country case study is on business associations operating in Morocco: the main business association *Confédération Générale des Entreprises du Maroc* (CGEM), two sectoral associations, and individual businessmen (and the conglomerates they lead). The analysis extends to 2010, the year the revolution broke out in Tunisia.

In the case of the CGEM the analysis looks at leadership, their election, their ties to the state and the interests they pursued. The sectors[20] examined are the pharmaceutical and textile and clothing sectors, which are chosen for several reasons. The choice in the case of the pharmaceutical industry is motivated by the fact that its emergence was mostly done through regulatory powers by shielding the industry from outside competition. Given the nature of production there is a relatively high barrier to entry, not only in terms of capital but also in

[20] This choice for sectors should not be regarded as part of a sectoral approach in which the specific features of a sector determine the type of state-sector relationship. To the contrary, if patterns of state-business relations emerge that are similar across different sectors, one could argue that it would refute the main premise of a sectoral approach.

terms of the necessary know-how. It is smaller in size in terms of number of firms. Furthermore, the sector contains both local firms and multinationals.

The textile and clothing sector, which provides a large segment of the population with jobs, is an old sector dating back to pre-colonial times and is undergoing tumultuous developments with the phasing out of the international multi-fibre agreement and the multiple signings of free trade agreements. It contains different types of firms, including sub-contractors, companies producing primarily for the domestic market, and others who are focused on exporting.

Both sectors have representative associations. In the case of the pharmaceutical sector the association could not maintain unity and the sector became fragmented. This did not occur within the textile sector, although the association came close to being split up. However, there are key qualitative differences between the two sectors as well. For example, the textile industry has traditionally built upon its established and longstanding relations with the ministries most relevant to the development of the sector in the liberal era, mainly the Ministry of Industry. In the case of pharmaceuticals, the relationship was almost exclusively with the Ministry of Health. Another important difference is that the pharmaceutical sector was part of the top performers in the manufacturing sector in Morocco, while the textile sector was among the decliners. The sector examined in more detail is the pharmaceutical sector, given its socio-economic importance when it comes to health care.

The policy area which has been chosen is the slum upgrading programme. Its relevance for the present thesis lies in the fact that this is a typical policy area which involves many stakeholders, including the private sector. As such, it provides the possibility to unearth the factors affecting state-business relations in this specific area.

In terms of terminology, I will refer to the regime when I mean the king and his direct entourage. When I can be specific, I will refer to the king explicitly. The terms government and authorities are used interchangeably. When I refer to the state, I mean the combination of both the regime and the government.

The data is accumulated using mainly secondary sources such as newspapers and economic magazines, as well as official publications from the Moroccan government and international trade and business organizations. This information is corroborated through elite/key informant interviews, 42 in total, conducted through multiple fieldwork visits to Morocco. These interviews, often based on anonymity, were mainly held with businesspeople, government officials, journalists, politicians, foreign representatives of firms and international agencies. Most were useful in providing the necessary background information and to get an understanding of policy processes. Because these were mostly elite interviews this may have led to some form of bias in sample selection of interviewees. An effort has therefore been made to decrease the bias in the sample selection and corroborate information gathered from different (opposing) sources.

1.3 Road Map

Introduction: Research question and theoretical framework.

Chapter two: This chapter provides a historical overview of the Moroccan economy in the pre-protectorate and the protectorate period and the evolution of state-society relations. This provides the basis for a discussion on state-formation in Morocco. It shows the evolution of the inherited colonial policies and state institutions.

Chapter three: This crucial chapter provides an overview of state-formation in post-independence Morocco. Besides providing an overview of the main political developments in

the period 1956-72, it also shows how these developments affected economic reform and gave rise to a particular state-business configuration.

Chapter four: State expansion in the 1970s was accompanied by a Morocconization policy. It solidified the concentrated and close relationship between the state and the formal private sector. Because state expansion was too reliant on phosphate earnings, crisis hit Morocco in the late 1970s. The remainder of the chapter deals with how the state deferred adjustment and how the privileged private sector attempted to protect its interests. The chapter includes a detailed discussion how the state interacted with various stakeholders besides the private sector in implementing the structural adjustment programme.

Chapter five: An overview of the main political and economic developments, with a special focus on the reign of the current king (post 1999). Special emphasis is placed on the emergence of new parties representing various segments in society. This analysis is coupled with a discussion of the formation of certain business groups and the consolidation of their position within the Moroccan economy. As such, it provides the context for the detailed case study of state-CGEM relations. The chapter analyses the issue of leadership. CGEM becomes a more representative and vocal association, earning it a stronger institutionalized place in policymaking. This more autonomous stand has been eroded in the past few years, as will be shown in the discussion on leadership changes. Paradoxically this has not led to a significant reduction in its engagement and active input in policymaking.

Chapter six: Social and political stability can be maintained if social peace is achieved in the urban areas. The increasing urbanization has led to a focus by the regime on urban development. I look at two areas, namely employment and housing. For employment I examine state-sector relations in the textile-clothing sector given its major contribution to

employment in morocco. For housing, I consider the case of Cities without Slums as a useful policy area to understand how the state deals with slum upgrading and how this affects state-business relations. It is shown that despite major tension within the association a united front has been maintained and a constructive relationship forged with the state in developing the sector within the liberalizing framework. A large and diverse sector which has relied on protection for survival is increasingly being transformed into a sector reaping the benefits of its pre-reform relations to induce the state to provide support in the liberal era. This, however, has not solved the many problems the sector faces.

Chapter seven: The case study of the pharmaceutical sector is provided in this chapter. The pharmaceutical sector was characterized by heavy involvement of the state in their emergence. For the pharmaceutical producers this meant just regulatory involvement and no financial stakes. The close relationship with the state did not mean that both sectors developed in the same way after structural adjustment started. The pharmaceutical sector managed to stave off many policies that would hamper profits, while lobbying for liberal reforms in which a benefit was perceived to exist. There was no direct state support forthcoming the way witnessed in the case of the textile sector. Not having forged links with other relevant ministries proved an obstacle in seeking state support for developing the sector.

Conclusion: In the conclusion I draw on the themes which emerged from the different periods and case studies. I include a discussion on the perceived resilience of monarchies and what my thesis can contribute to that debate.

1.4 Theoretical Discussion

In this section, I provide an overview of literature related to the Middle East as well as broader research focusing on state-society relations and the developmental state. I will borrow categorization of Atul Kohli's[21] work as my guide in my theoretical narrative.

1.4.1 State of the Art of Literature on State-Business Relations in the Middle East

Research on the specifics of state-business relations has been a theme within different disciplines, like political science and development economics. The focus has traditionally mostly been on East Asia and Latin-America with relatively little attention for the Middle East and Sub-Saharan Africa.[22] Since the early 2000s a growing body of literature emerged specifically taking countries in the Middle East and North Africa as the unit of analysis. This section provides an overview of the most important of these works.

In explaining the variety in reform outcomes in Saudi-Arabia, Steffen Hertog claims that "it is the clientelist and fragmented nature of the Saudi system, both formal and informal, and the accompanying dominance of vertical links that explain specific coordination and bureaucratic capacity problems."[23] He traces this particular configuration back to the state formation period. The innovative approach lies in the systematic analysis of the meso and micro level. Such an approach renders it possible to differentiate between varieties of state capacity. State capacity being defined as "a measure of how effectively state decisions can be turned into changes on the ground."[24] The meso level "width", the micro level "depth" and the

[21] Atul Kohli, *State-Directed Development: Political Power and Industrialization in the Global Periphery* (Cambridge: Cambridge University Press, 2004).
[22] See for example, Sylvia Maxfield and Ben Ross Schneider, *Business and the State in Developing Countries* (Ithaca: Cornell University Press, 1997) or Ben Ross Schneider, *Business Politics and the State in Twentieth-Century Latin America* (Cambridge: Cambridge University Press, 2004).
[23] Steffen Hertog, *Princes, Brokers, and Bureaucrats: Oil and the State in Saudi Arabia* (Ithaca: Cornell University Press, 2011), 246.
[24] Ibid.,263.

vertical fragmentation of the Saudi system account for variation in reform outcomes.[25] Hertog's nuanced and systematic research has refined the literature on rentier states. This does not mean it has less relevance to countries like Morocco, which do not possess such natural resources.[26] The legacy of institutions formed at the early stages of state building have enduring consequences. Although Morocco shares some of the fragmented institutions and vertical power structures that are present in the Saudi case, it is different in two important ways. Firstly, Morocco has a far richer associational scene. And secondly, Morocco has taken important steps when it comes to economic and political liberalization. The interaction between on the one hand the institutional legacy from the state formation period, and on the other hand the timing of liberalization (both economic and political) has important ramifications for reform outcomes.

A work that focuses more on political liberalization is Bellin's case study of Tunisia. She seeks to count for the lack of democratization in Tunisia, prior to the Arab Spring. Bellin argues that late industrialization implied a significant role for the state. This meant that both capital and labour were dependent on the state and subsequently did not develop enough autonomy in order to press for democracy.[27] Like Hertog, her research puts a strong emphasis on the origins of state-business and state-labour relations. The legacy of the particular configuration of these relationships in Tunisia, as a late industrializer, had enduring political consequences when it came to resisting authoritarianism.

A similar historical approach is used by Pete Moore in his attempt to explain varieties in state-business relations and their economic and political effects in Jordan and Kuwait. His

[25] Ibid., 4 and 248.
[26] Although Morocco does rely on rents through the export of phosphates (more on this in chapter 4), tourism and remittances.
[27] Eva Bellin, *Stalled Democracy: Capital, Labor, and the Paradox of State Sponsored Development* (New York: Cornell University Press, 2002), 6.

focus is on how these relationships evolved before, during and after crisis. His argument emphasizes how "structural incentives are shaped by previous political struggles over regime coalitions, historical junctures and institutional capacities during crisis."[28] His historic-institutional approach corrects and extends the analysis based on the rentier state theory, and analysis that is based on a sectoral approach. Moore argues that the sectoral approach puts too much emphasis on the material position of producers. It is for this same reason that he points to the flaws of Olson's logic of collective action. In essence, Olson's approach overemphasizes how material incentives push interests to organize and lobby. This can have potentially negative effects on growth.[29] The rejection of the sectoral approach is shared by Cammett (2007) and Heydemann (2004).

Cammett, in an important work on how and when the textile sector organized in Morocco and Tunisia, recognizes that material incentives play an important role in pushing producers to act collectively. Yet she rejects the claim made by sectoral approach theorists that this is the most important variable explaining collective action. In a similar vein, she rejects the collective action claim by Olson because it gives us little in terms of how, when and why producers respond in the way they do. Drawing from social movement theory, Cammett adds that how these producers "acted on these preferences was contingent on their expectations about state responses to business mobilization, perception of state support for their interests, and their perceptions about whether other factions of the industrial class posed credible threats to their interest".[30] Different factors affect state-business relations. These range from whether the capital structure in a country is dispersed or concentrated to the specific balance of power between the state and business. Cammett highlights the importance

[28] Pete Moore, *Doing Business in the Middle East: Politics and Economic Crisis in Jordan and Kuwait* (Cambridge: Cambridge University Press, 2004), 11.
[29] Ibid., 25-26.
[30] Melani Cammett, *Globalization and Business Politics in Arab North Africa: A Comparative Perspective* (New York: Cambridge University Press, 2007), 7.

of the pre reform configuration of state business relations.[31] She points to some shortcomings of the institutional, sectoral and state centered approaches in explaining how, why and when producers mobilize collectively. Instead she argues for an approach which focuses more on the internal business dynamics. Key is understanding how "…the sociological origins of diverse segments of industrial capital shape collective private sector responses to economic opening."[32] This insightful work shows how similar producers can show a variety of responses depending on the context. The comparison with Tunisia is key. A question remains though how the same institutional context in a single country can affect state-business relations in similar ways, despite differences between sectors. It is this puzzle which the current thesis seeks to solve.

Like Cammett, Steven Heydemann et al view the sectoral approach as too deterministic. As such they reject the conceptualization of actors as "one-dimensional products of their position in a system of production"[33] and argue for a network approach. These networks "permit the formation of unexpected coalitions and promote patterns of bargaining and interaction that appear counterintuitive based on a less flexible reading of the categories that actors are presumed to occupy."[34] Research using network analysis can be useful in explaining outcomes that go beyond what one would expect when employing categories like class or sectoral interests. But in a region where a large part of interaction between the state and business takes place informally, such type of research becomes more problematic. Cammett rightly points out that conducting systematic network based research is

[31] Ibid., 7-8.
[32] Ibid.,18.
[33] Steven Heydemann, "Introduction. Networks of Privilige: Rethinking the Politics of Economic Reform in the Middle East," in *Networks of Privilege in the Middle East: The Politics of Economic Reform Revisited*, ed. Steven Heydemann (New York: Palgrave Macmillan, 2004), 24.
[34] Ibid.,12.

problematic in this region because of the lack of reliable data and unwillingness by interviewees to provide answers to 'sensitive' business figures.[35]

Despite this, an empirical application of the network approach can be found in the work of Bassam Haddad on Syria (2012). He seeks to explain Syria's mediocre economic record by taking into account the role of mistrust and the rise of exclusionary institutions and networks. He traces the origin of these exclusionary networks. This has subsequently affected the relationship between the regime and the business class. The mistrust and the exclusionary nature of these networks has led to sub optimal development outcomes.[36]

An earlier work on Syria compared its developmental record with Turkey, Korea and Taiwan.[37] David Waldner's core argument revolves around the notion that certain types of state building experiences were not conducive for economic development. In those countries with high levels of elite conflict, striking alliances with lower classes coincided with industrial transformation. This led to a set of institutions that did not solve important collective dilemma's associated with economic development. His key point is the issue of the "timing of state building and popular-sector incorporation relative to substantial industrial development."[38]

The above mentioned works have collectively contributed to research on state-business relations. Whether comparative or single country case studies they all point to the importance of the origins of ruling coalitions. Taking state formation as a starting point is a

[35] Melani Cammett, "Challenges to Networks of Privilege in Morocco: Implications for Network Analysis.", in *Networks of Privilege in the Middle East: The Politics of Economic Reform Revisited*, ed. Steven Heydemann (New York: Palgrave Macmillan, 2004), 249.
[36] Bassam Haddad, *Business Networks in Syria: The Political Economy of Authoritarian Resilience* (Stanford: Stanford University Press, 2012), 33-35.
[37] David Waldner, *State Building and Late Development* (Ithaca: Cornell University Press, 1999).
[38] Ibid., 51.

premise shared by this thesis. The enduring legacies of these institutions have to be taken into account when explaining current reform processes and the nature of state-business relations. This research seeks to push the boundaries by showing how the changing role of the state, the legacy of fragmentation in the case of Morocco, and the shifting coalitions on which the regime relies are important factors in understanding the nature of state-business relations in Morocco in today's more liberal global political economy. As such, my analysis falls within the nexus between economics and politics[39], two fields not often combined in case studies of Morocco.

1.4.2 The Grand Narratives and Concepts in the Academic Literature

Different conceptual frameworks have emerged out of research into state-society relations. These range from abstract conceptual frameworks (North et al., 2009) to more specific explanations grounded in the history of state-formation (Kohli, 2004 and 2009). The discussion below summarizes the main contributions made by these theories and how this thesis fits within this strand of literature.

North et al. seek to explain the foundations of social orders and how societies make the transition from one social order to the other. In their conceptual framework, "social orders are characterized by the way societies craft institutions that support the existence of specific forms of human organization, the way societies limit or open access to those organizations, and through the incentives created by the pattern of organization."[40] As evidenced by the title of their work, it is the issue of how violence is being dealt with that is a key part of their (historical) analysis. Besides violence, their conceptual framework contains three other core

[39] However, this does not imply a causal relationship between economic and political liberalization. My assertion is more limited to the notion that economic decisions are sometimes made with political considerations in mind and vice-versa.

[40] Douglas C. North, John Joseph Wallis, Barry R. Weingast, *Violence and Social Orders: A Conceptual framework for Interpreting Recorded Human History* (Cambridge: Cambridge University Press, 2009), 1.

elements: organizations, institutions and beliefs.[41] They distinguish between three different social orders, the foraging order (which formed the basis of the hunter-gather societies), limited-access orders and open-access orders. The latter two are of relevance for the present analysis.

The limited access orders, also denoted as the natural states, are generally characterized by non-representative political systems. The governments tend to be smaller and centralized, and there is a limited number of organizations in wider society. Social relationships are personalized. There is a high degree of uncertainty when it comes to the application of law and the security of property rights. This ultimately results in lower levels of economic development. By contrast, open-access orders show signs of higher political and economic development, and are generally less susceptible to negative growth rates. While governments tend to be bigger, they are also more decentralized with enough room for many organizations within civil society. Relationships are less personalized, with the law being applied equally and property rights are secured.[42] Whether limited-access orders can evolve into open access orders depends on what the authors call the doorstep conditions. These include the application of the rule of law, the emergence of 'perpetually lived' organizations whose identities are independent of their members, and political control of the military. Not all natural states fulfilling these criteria can move to an open-access social order. What these conditions make possible is impersonal intra-elite relationships. This could in a later phase be extended to larger segments of society.[43]

This type of abstract theorizing clarifies the link between how violence is dealt with and the resulting characteristics of certain types of society. The categorization is conceptually

[41] Ibid., 2.
[42] Ibid., 11-12.
[43] Ibid., 26.

neat, primarily because they are ideal types. The authors do acknowledge that there are many varieties possible within the natural state category which characterizes many countries in the non-Western world. It does leave those interested in the intervening steps of the transformation with few tools for further analysis about, for example, the timing of these transformations from one order to the other. Another question that remains open is what happens to countries who do achieve some change but have not reached the full open-access ideal. For example, what implications did it have when Morocco became politically more open, in the period between 1995 and 2005? When political reform stalls, how do actors react to the changed institutional set up? In the case of Morocco, the vertical power structures continue to be strengthened. A strong role is being played by the parallel institutional structure of the royal advisors and the royal cabinet. In addition, the economic role of the monarch is becoming more entrenched in the national economy. This is happening against the background of an active but fragmented associational scene as well as a deeply fragmented political scene. Bates rightly points to "the limited role micro-level reasoning played in their (North et al) arguments." Bates expresses that he "wished to be introduced to the active agents, be they politicians, merchants, farmers, or kinsmen….wanted to be informed about the problems they faced, the constraints they encountered, the beliefs they entertained, and the strategies they devised….needed to be enlightened about the context within which they operated, be it a market, a battlefield, an assembly, or a physical setting".[44]

The authors do emphasize though the role of elite and ruling coalitions. How the state develops depends on contingency and less on general patterns. Regarding a conceptualization of the state, North et al point to the danger of a single actor approach. Such an "approach misses how the internal dynamics of relationships among elites within the dominant coalition

[44] Robert Bates, "Review: North D., Wallis, J & Weingast, B. (2009) Violence and Social Orders: A Conceptual framework for Interpreting Recorded Human History*," Journal of Economic Literature*. 48:3 (2010): 755.

affect how states interact with the larger society."[45] This caution is similar to the state-in-society approach by Migdal (2001), upon which I will briefly elaborate.

The state-in-society approach sees society as a "mélange of social organizations rather than a dichotomous structure."[46] The task ahead is to analyse what type of interaction takes place between state officials and other parts of society.[47] Explaining variations of state effectiveness in a state-society approach differs markedly from state-centred approaches. The latter focuses on the relative autonomous position of the state vis-à-vis groups in society, while the former emphasizes the type of ties the state has to groups in society. From this it follows that the analysis of a country such as Morocco, will need to include a breakdown of the components of the state and to study not only the centre of power but also other parts of society and their relationship with the centre.

The state-in-society concept is a historically grounded approach to analysing power. By looking at struggles at different levels of the state and the different intersection of state and society, one is able to discern patterns of domination; these patterns could either be integrating or dispersing.[48] The levels of the state to be analysed can range from the local and regional administration, to national agencies and finally the top leadership. Struggles at each level are contingent on the context in which they are played out and the outcome will not necessarily be in line with the blueprints drawn up by the national leadership.[49] In Migdal's view, "the state is constructed and reconstructed, invented and reinvented, through its interaction as a whole and of its parts with others. It is not a fixed entity; its organization,

[45] North et al., *Violence and Social Orders,* 17.
[46] Joel Migdal, *State in Society: studying how states and societies transform and constitute one another* (New York: Cambridge University Press, 2001), 49.
[47] Ibid., 63.
[48] Joel Migdal, "Introduction: developing a state-in-society perspective," in *State power and social forces*, ed. Joel Migdal, Atul Kohli and Vivienne Shue (Cambridge University Press: New York, 1994), 8-9.
[49] Ibid., 16-17.

goals, means, partners, and operative rules change as it allies with and opposes others inside and outside its territory. The state continuously morphs."[50]

Theories focused on the state attempt to understand the issue of domination and change through the lens of the goals laid down by the state, and the methods employed to reach these goals. In doing so theorists may miss the action and the consequences of often unintended action that takes places in multiple arenas. Studying these processes taking place in these multiple arenas between different coalitions and forces, as this thesis does with respect to Morocco, can be a fruitful approach in analysing how change comes about.[51] Migdal proposes his state-in-society approach and in particular his own definition of the state as a useful framework. In his view "a state is a field of power marked by the use and threat of violence and shaped by (1) the image of a coherent, controlling organization in a territory, which is a representation of the people bounded by that territory, and (2) the actual practices of its multiple parts."[52] The usefulness of such an approach lies in the fact that it encapsulates not only the image the state portrays of itself but also of the practices. In other words, the continuous interaction between the state and society moulds the image and practices and thus underlines the deficiencies of state-centred approaches. The innovation lies in simultaneously analysing the state as a unitary actor while at the same time examining the interaction of its different parts.[53]

This state-in-society approach is appropriate in examining state-business relations. Because it is partly more process-oriented, it leaves room for an analysis of the agents of change. As such it addresses the critical point made by Bates about the need for a micro-level

[50] Ibid., 23.
[51] Joel Migdal, *State in Society: studying how states and societies transform and constitute one another* (New York: Cambridge University Press, 2001), 10-11.
[52] Ibid.,15-16 (italics in original).
[53] Ibid., 22.

approach. This thesis places a particular emphasis on the interaction between the state and business. By looking at different policy processes, key factors that affect state-business relations are identified. But to understand the institutional context in which the state and the private sector interact, it is imperative to trace the origin of these institutions.

1.4.3 On the Origins of the Developmental State

In his seminal work, Peter Evans argued what he deems to be an essential characteristic of a bureaucracy that can foster successful transformation, a phenomenon which he calls "embedded autonomy". Embeddedness is defined as "a concrete set of social ties that binds the state to society and provides institutionalized channels for continual negotiation and re-negotiation of goals and policies…Only when embeddedness and autonomy are joined together can a state be called developmental. " [54] Similarly, Chalmer Johnson argues that an important part of the developmental state was the autonomy of the economic bureaucracy.[55] What is lacking in the work by Evans is an analysis regarding the origin of that type of developmental state. Even though it was stated explicitly at the outset by Evans that an enquiry into the origin of such states was not envisaged, it still remained an important issue to be taken up by subsequent scholars.

Applying a historical comparative analysis of different states in the developing world, Kohli does exactly that. The innovative aspect of Kohli's work is that he combines the intellectual search of explaining varieties of outcome with the equally important issue of the origin of the type of states that explains these outcomes. Although this thesis is not

[54] Peter B. Evans, *Embedded autonomy: state and industrial transformation* (Princeton, NJ: Princeton University Press, 1995), 12.
[55] Chalmers Johnson, "Political Institutions and Economic Performance: The Government-Business Relationship in Japan, South-Korea, and Taiwan, " in *The Political Economy of the New Asian Industrialism*, ed. Frederic C. Deyo (Ithaca: Cornell University Press, 1987), 152.

attempting to explain developmental outcomes, the focus of this strand of theoretical literature on state-formation provides a useful starting point for the analysis.

The key to understanding the origin of states lies, naturally, at the early stage of state-formation. In the case of the developing world this almost automatically brings us to the colonial era. Explaining development outcomes in the post-colonial era needs to be based in a historically grounded analysis. This makes it possible to analyse how the colonial state transformed the political economy of the colonized. Equally important is the analysis of how these colonial institutions were maintained or transformed in the post-independence era. For the present analysis of Morocco, the challenge is to identify the parts of the institutional setting that found their origin in the colonial state formation era under the French and were subsequently moulded into new forms to address the demands of the post-independence era. More specifically, which ruling coalitions were formed, what was their powerbase and what kind of relationship did they forge with the private sector? The mechanism through which power was exercised is a key component of such an analysis.

Kohli argues that failures of development cannot be attributed to state intervention. His explanation for varying degrees of industrialization focuses on the issue of how state power is organized and used.[56] In his analysis, states in the developing world are categorized along three ideal types: cohesive capitalist, fragmented-multiclass and neo-patrimonial states.[57] The first type, according to Kohli, is the most successful in achieving economic growth and industrialization, while the neo-patrimonial states are the least successful, with fragmented-multiclass states having a mixed record. What distinguishes these types of states from each other is political effectiveness and the type of relationship forged with the private

[56] Atul Kohli, "States and economic development", *Brazilian Journal of political economy*, vol. 29, no 2 (114) 2009: 213.
[57] Kohli, State-Directed Development, 9.

sector. It is the latter in the words of Kohli that is key: "..other things being equal, the setting that has proved to be most conducive (i.e., serves as a necessary but not a sufficient condition) to rapid industrial growth in the developing world is one in which the state's near exclusive commitment to high growth coincided with the profit-maximizing needs of private entrepreneurs".[58] It is the narrow focus of state intervention on growth coupled with a closely forged alliance with the private sector that sets apart successful cohesive capitalist states from the fragmented-multiclass and the neo-patrimonial states. It is therefore not state intervention that explains success or failure but the *type* of intervention and the institutional setting.[59] In the case of fragmented-multiclass states, which closely resemble most states in the developing world, the state has a broader range of interactions and alliances that are needed to maintain its authority. In this category of states, fragmentation refers to the fragmented nature of authority. Kohli argues that "public authority in these states tends to be more fragmented and to rest on a broader class alliance."[60] Whereby class should not be defined in Marxist terms. Kohli uses class and social groups interchangeably.[61] Economic growth is not necessarily the prime means to maintain legitimacy. In the case of neo-patrimonial states, these goals are not tailored to maintain alliances across a range of different constituencies but are more focused on personal greed and myopic political behaviour. [62]

Given the relevance of one of his categorizations to many developing nations, including Morocco, it is worthwhile to focus on the fragmented-multiclass category of state. And here lies a challenge. As already mentioned, the strength of Kohli's work lies in bringing to the fore the importance of history and the necessary focus on politics and power. The institutional context, with many aspects being constructed under colonial rule, defines how

[58] Ibid., 216.
[59] Ibid., 223.
[60] Kohli, *State-Directed Development*, 11.
[61] Ibid., 400.
[62] Kohli, "States and Economic Development", 217-18.

political considerations and power can influence the nature of state-business relations. The focus in Kohli's work is primarily on the few decades after independence. There is no extension of his analysis as to how this explanation of outcomes can account for the type of state-business relations in the current circumstances characterized by (partial) liberal reform in a globalized economy. Are his state categories still useful in explaining how states are attempting to achieve growth through reform and the opening of the economy? Kohli does not get beyond stating that "committed national leaders – with effective state machineries and with some room to manoeuvre in a global political economy- are likely to best understand and pursue solutions to developmental problems".[63] It is here where the contribution lies of this thesis. How do the legacies emanating from the state-formation stage affect the interaction between state-business relations and reform processes in the current globalized political economy?

A concentrated focus on contemporary fragmented-multiclass states can shed light on the dynamic interaction between the state and social forces as the context changes over time. For example, besides the impact of international factors like the more globalized political economy, there are also internal processes underway which change the equation in fundamental ways. Increased urbanization challenges the assumptions on which power holders once viewed society. In Morocco for example, it was not until 1993 that more people lived in urban areas instead of rural ones.[64] It both opens up new threats as well as the possibility of new alliances that can be forged. Of interest, then, is to see how institutional changes accompany these changing coalitions and if not, how the old mechanism through which power is organized affects the new constellation of societal forces. Hence, it becomes of prime importance to closely scrutinize the changing balance of forces and how power is

[63] Kohli, "States and economic development", 227.
[64] World Bank Development Indicators

organized in order to understand new success stories or disastrous societal projects initiated by the ruling elites in a fragmented-multiclass state.

2. State-building in Pre-Independence Morocco

2.1 Introduction

In the introduction, the argument was made that the type of state has an important impact on state-business configurations. For a proper understanding of the type of state under consideration, one needs to take a historical approach into the origins of the state. It is for this reason that Kohli puts emphasis on the significance of colonialism in state-building.[65] The second half of this chapter is devoted to the 1912-1956 period when Morocco was part of a French and Spanish protectorate.

Most accounts of Moroccan political economy focus more on the period after 1912 when Morocco became a protectorate. This is not surprising given that the emergence of a modern economy can be traced back to the efforts of the colonizing powers, France and, to a lesser extent, Spain. However, neglecting the pre-colonial period risks missing key developments. Firstly, because Morocco was only ruled by the French and the Spaniards for 44 years, the impact of this rule on local institutions was not as deeply felt as in neighbouring Algeria, which was ruled by the French for 132 years. Hence, this is why it is necessary to consider the pre-protectorate period. This will give a proper understanding whether and how institutions and power configurations were modified during the protectorate period. Secondly, the political capacity of the state to deal with different forces both within its borders and outside its borders, went through several important changes prior to the establishment of the protectorate. These reforms affected the type of state and consequently the form state-business relations took. Thirdly, neglecting the pre-protectorate period would implicitly assume that the protectorate came into existence in a vacuum. In reality, the colonizers built

[65] Kohli, *State-Directed Development,* 17.

and modified existing institutional structures. In turn, post-independence Morocco was built on the colonial structures that were left behind.

The following section looks closely at the reforms (and lack of) which were implemented in the pre-protectorate period, how this affected central authority in Morocco, and the ties forged between the state and the rural and urban areas. Particular emphasis is placed on the influence of foreign commerce and how this affected the relationship between the sultan and the emerging local bourgeoisie.

2.2 Pre-Protectorate Morocco

2.2.1 The Establishment of Alawite Rule

The starting point of this historical overview is the emergence of the Alawite dynasty. Although this dynasty is still ruling Morocco, it seems an arbitrary starting point. However, it was during the early reign of the Alawites that important foundations were laid for the current Moroccan state. Some of these characteristics are clearly discernible in contemporary Morocco, as becomes evident in subsequent chapters. The dilemmas faced by early rulers and the continuous adaptations made to functions of the state would look familiar to current policymakers in both the Moroccan government and the Royal cabinet.

The current Alawite dynasty was founded in 1668. It was of rural origin from the southern oasis of Tafilalt. The fact that the founder of the dynasty claimed *sharifian* status (family lineage from the prophet Mohammed) is still an important element used by the current monarch in his role as the commander of the faithful. The Alawite dynasty emerged during an era of Moroccan history best described as one of fragmentation. The territory was divided among different entities, some pledging allegiance to a prince, religious orders (*zawiya's* or

tariqa's), autonomous city states, or local military leaders.[66] The Alawite family, who originated from Tafilalt in south-eastern Morocco, were not politically active, neither were they aligned or dependent on religious orders. Their conquest of Morocco was largely done through the use of force. Between 1640 and 1672, various Alawite leaders secured the rule of their family by defeating opponents, both religious orders as well as local military leaders. They opened a route from their south-eastern desert stronghold all the way up to the Mediterranean, while also subjugating the important inland cities of Fes and Marrakesh.[67] The military enterprise was facilitated because the various opposing factions had exhausted each other. In addition, Morocco was spared foreign meddling during this crucial time in its history. Foreign commercial links ensured the necessary funds for the Alawite rulers during their campaigns. Since then, the members of the dynasty understood that "control of foreign commerce was indispensable to the territorial integrity of the country".[68]

2.2.2 Moulay Ismail: Centralizing Control (1672-1727)

Alawite rule was consolidated in earnest under the reign of Ismail, which spanned over half a century until his death in 1727. The backbone of his power was an army comprised mostly of black slaves, which he deployed ruthlessly. This army provided an independent powerbase and the means to subjugate disobedient tribes and cities as well as an instrument to collect taxes. Hence, it increasingly provided the sultan with a monopoly on violence. To consolidate his reinforced power, Ismail set out to build new alliances with other *sharifian* families, tribes and most importantly the religious orders his predecessors tried to crush. Regarding the religious orders, Ismail forced them to move their bases to the city of Fes[69],

[66] Abdallah Laroui, *The History of the Maghrib, An Interpretive Essay* (Princeton: Princeton University Press, 1977), 271.
[67] Richard Pennell, *Morocco: From Empire to Independence* (Oxford: One World Publications, 2003), 97-98.
[68] Laroui, *The History of the Maghrib*, 272.
[69] A side effect of the weakening of the *zawiya's* was the loss of an entity which could keep the country together. Having tied the army to himself personally, it meant that Morocco did not have a structure in

thereby centralizing his power over those who could potentially challenge his religious legitimacy.[70]

Ismail resorted to heavy taxation to keep his independent army. Unfortunately, high taxation also crippled the economy. Supplying the army with recruits led to the loss of (slave) manpower which previously was employed in agriculture.[71] It was partly because of this that Ismail relied on foreign commerce. He secured the trans-Saharan routes as well as strengthened ties with European nations through the cities of Tetuan, Salé and Safi. Illustrative of this fact is that it was during his reign that the British consul was made legally responsible for his fellow countrymen in Morocco. This proved to be the precursor to the protection system extended later to other European nations. This protection system would become a source for disputes. In the nineteenth century, it became to be perceived as an infringement on Moroccan sovereignty. On the other hand, increased trade with foreign partners provided a different avenue to tie Moroccan individuals to Ismail's rule, namely through the provision of licenses to trade, effectively providing few merchants with a monopoly.[72]

The model of statecraft implemented by Ismail didn't however stand the test of time. In fact, Morocco entered a period of disintegration following his death in 1727. One of the main reasons was that his highly centralized rule was built around his person. Furthermore, the independent army proved a liability when its patron died. Instability continued until the grandson of Ismail, Mohammed III, took over in 1757. His method of statecraft deviated from his grandfather. The changes initiated during Mohammed's reign, which lasted until his death

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place other than the army to keep it together. Given the decentralized and dispersed presence of the *zawiya's*, they were historically the ones to count on to mobilize their followers in case of for example foreign interventions or feuding siblings after the death of a sultan. By having the religious orders move their headquarters to Fes, Ismail inadvertently destroyed this important unifying force.

[70] Pennell, *Morocco*, 99-100.

[71] Laroui, *The History of the Maghrib*, 274-275.

[72] Pennell, *Morocco*, 104-105.

in 1790, proved enduring. He is considered to be the one who laid the foundations of modern Morocco.[73]

2.2.3 Mohammed III: Laying the Foundations of Modern Morocco (1757-1790)

Sultan Mohammed III inherited a country with several structural problems. Moroccan farmers' focus on subsistence agriculture failed to generate the surplus needed to support extractive taxation. This made a standing army an increasing burden on state finances. In addition, Morocco was in need of infrastructural upgrading. Such upgrading would not only benefit trade, but would also make the securing of the countryside, with its many rebellious tribes, easier.

A crucial aspect of the reform agenda was the reorganization of the treasury. The fact that the word storehouse, *makhzen*, is nowadays still used to denote the state and/or the king's entourage is illustrative of the importance attached to this department of the government.[74] New taxes were introduced which affected the daily life of ordinary citizens. Everyday transactions were now also subject to taxation, like ferry crossings. At the same time, custom duties were raised, and export monopolies created high revenues for those owning the licenses. Ports were (re) built, like the one in Essaouira. This taxation policy set state finances on a more secure footing, but threatened many segments of society. Among those affected by the new policies were foreign merchants who complained about the custom duties, ordinary people feeling the state encroaching on their daily budgets, and Islamic scholars who challenged the legality of these taxes.[75]

[73] Laroui, *The History of the Maghrib*, 275-276.
[74] Pennell, *Morocco*, 111.
[75] Susan G. Miller, *A History of Modern Morocco* (New York: Cambridge University Press, 2013), 8-9.

A more lasting reform effort was the reorganization of the mode of government. Mohammad III reintroduced elements which were at some point implemented by previous dynasties. But he also looked to the East and adopted measures pioneered by the Ottomans. He initiated certain policies to placate different sectors of society. In order to reduce the need for an army, he tried to use less force, and forge closer alliances. A key feature of his reform agenda was decentralization. Important political and military positions were allocated to local patrons with a considerable client base. The link between the local level and the central authorities was the *vizir*. He was supported by an apparatus which included a foreign minister and a treasurer. Important judicial and financial bureaucrats were recruited from the main commercial families.[76] These figures were often linked to the sultan through marriage. It enabled the holders of these positions to become wealthy and influential. The sultan also reverted back to using armies supplied by tribes in return for tax exemptions. This meant more reliance was put on taxing trade rather than agricultural production in the tribal countryside. The burden of taxation therefore shifted more to the cities.[77]

In order to make up his budgetary needs, Mohammed III expanded external trade, allowing more foreign merchants to establish themselves in Morocco. Essaouira became the main hub, with Tangier joining as an important centre towards the end of the 18th century. Besides agricultural products, the country's exports comprised of minerals, such as copper and lead. Treaties were signed with Venice, Denmark, France, and Britain. The sultan was also one of the first to enter into a treaty agreement in 1786 with the United States. A system emerged in which sultan's merchants occupied important positions in the transnational networks of traders, many of whom were of Jewish and/or of Andalusian origins.[78] Even though foreign trade was taxed, the expanded opportunities attracted many merchants.

[76] Laroui, *The History of the Maghrib*, 275-277.
[77] Pennell, *Morocco*, 108-110.
[78] Ibid., 109.

An important legacy from this period is still discernible in contemporary Morocco. The increased reliance on an independent army financed by taxation meant outside sources were needed to make up the inadequate domestic tax base. This encouraged an intensification of foreign commercial links which in turn opened up rent-seeking opportunities for individuals, both foreign and domestic, who were in close proximity to the palace. Thus, a governance system emerged which relied more on negotiations rather than force and was increasingly linked to foreign commerce.[79]

2.2.4 Morocco's Long Nineteenth Century: A Balancing Act (1790-1912)

The period between the last great reformer, Mohammed III, and the start of the Protectorate in 1912 can be termed Morocco's long nineteenth century. One of the main challenges facing the successively ruling sultans was how to maintain Morocco's independence in the face of increasing encroachment from Europe. This required a precarious balancing act, placating some segments of society whilst, inevitably antagonizing others, reversing alliances when expedient. Despite the fluctuating situation, the sultans of the period oversaw and turned to their advantage a relatively stable governance system. Neither the tribes nor the urban elite found themselves in a position to seriously challenge Alawite rule. In these relationships, the threat of force remained the ultimate threat, successfully 'encouraging' compliance. Through the threat of effective force and the evolution of a convoluted system of formalized allegiance[80], the sultans exerted their power over the tribes and their people.

[79] Laroui, *The History of the Maghrib*, 279.

[80] The *bay'a* was an intricate procedure involving (grand) *vizirs*, *qadis* (judges), *qaids* (local officials), *shaykhs*, notables, *amils* (local governors), and *ulema* (religious scholars). The *bay'a* is a contractual arrangement between the King and the people. Until today, there is a yearly ceremony in which members of the government, military , the religious establishment and higher administrative officials renew the contract. In this contract the King promises security in return for the obedience of the people. Mouna Cherkaoui and Driss Ben Ali, "The Political Economy of Growth in Morocco," *The Quarterly Review of Economics and Finance* 46:5 (2007): 744.

However, it did not always mean that power extended equally over the whole territory.[81] Nor did this mean that force was the only tool available. When force was not an option, the sultan relied on alliances and his mediatory role. As will be discussed in the remainder of this chapter, the sultan often resorted to (shifting) alliances in order to maintain power.

This section is organized thematically, rather than chronologically. It provides an overview of the different sultans dealt with the army and local chiefs, taxation and the increasing role of foreign power and commerce. The latter is of particular relevance for the rise of Moroccan merchants.

2.2.4.1 The Army and Local Chiefs

Ever since Ismail opted for an independent army, sultans had to resort to some measure to deal with the army. This was part because of the state revenues needed to keep the army. But more importantly, how to keep its allegiance to the central authority intact. The weakness of the army was exposed when Morocco faced the advancing French in neighbouring Algeria. One of the consequences was open rebellion by the standing army against the sultan in 1831. It took a few years, a brutal campaign and the help of tribes from the mountain areas of the Rif and the Middle Atlas to put down the rebellion.[82]

In order to deal with the restive rural areas, sultans during consecutive periods started to rely more and more on local chiefs. In the latter part of the nineteenth century this was done in the south through the reliance of the sultan on the Glaoui family, the Goundafa tribe and the Mtougi family. They were nominally under the rule of the sultan, but were powerful locally and could, if they wished, challenge the central authority of the sultanate. Their relative

[81] John Waterbury, *The Commander of the Faithful: the Moroccan Elite, a Study in Segmented Politics* (London: Weidenfeld and Nicolson, 1970), 16-20.
[82] Miller, *History,* 16-17.

autonomy rested on their control of trans-Saharan trade.[83] Another tactic used towards the end of the nineteenth century, was to increase circulation of local chiefs and to appoint more governors chosen by the sultan from his newly reformed army.[84] The sultans' more frequent visits and military campaigns led to increased direct contact with subjects in far corners of the sultanate.[85] Despite this, the sultans' control remained tenuous, and was often undermined by tribal uprisings. It is noteworthy that given the volatile situation in the rural areas, it was the (commercial) elite in cities who valued the benefits of allegiance to the sultan in return for protection against the unruly tribes.[86]

Successive sultans continued to rely on tribes and local chiefs to supply the army. But towards the end of the nineteenth century the sultans attempted to reorganize the armed forces. The army increased in size. Arms and training deals were concluded with several Western nations. Unfortunately, it led to an inefficient and expensive army.[87] Despite this, the reforms had several effects. Firstly, increasing conscription meant that soldiers were now entering the army from different levels of society. Secondly, the increased size coupled with a higher discipline and professionalization meant that the sultan possessed an instrument of coercive force that outgunned any potential domestic rival. Lastly and related to the latter, it

[83] Pennell, *Morocco,* 126.
[84] Miller, *History,* 35.
[85] Ibid., 36.
[86] Another precarious relationship, that between the sultans and the religious establishment continued to require astute political maneuvering. It often occurred that the sultan, by adhering to a more orthodox position, fought some of the orders which were seen as heretic due to the veneration of saints. This position increased the standing of the sultan in the view of the more orthodox *ulema* in the major cities. However, it also happened that a sultan faced the wrath of the *ulema* when they disagreed with him over a tax policy which they sometimes deemed illegal under Islamic law. They also disapproved of selling Moroccan grain to Europeans. It meant non-Muslims benefiting from a product that periodically became scarce for Moroccans thanks to poor harvests. Thus, revolt in urban areas was frequently supported by part of the religious establishment. This increased their influence over the sultan, especially during succession difficulties. On other occasions, the *ulema* supported reforms, for example army reform. In their view this could strengthen Morocco against foreign armies. Laroui, *The History of the Maghrib*, 316, Pennell, *Morocco,* 113 and 119, and Miller, *History,* 40.
[87] Pennel, *Morocco,* 118.

was now possible to go on expedition to different corners of the nation and thus expand the reach of control of the sultan.[88]

2.2.4.2 Extractive Capacities of the State

During the long 19th century, the need to raise the finances necessary for the maintenance of an independent army dominated the relationship between the sultans and their subjects. Depending on prevailing political expediency and short-term alliances the sultans' see-sawed the primary target of their taxation policies from an initial reliance on foreign trade and urban areas to an increased squeezing of rural areas and back again. When surplus extraction coincided with poor harvests, it aggravated rebellion in the rural areas.[89] Following the treaties with foreign nations from 1856 onwards, the revenue the sultans generated through custom duties declined. To compensate for this reduction, at one point a fixed tax rate was introduced in rural areas. Tax levels were not based on the level of harvest. This taxation system coupled with bad harvest years imposed on a subsistence based agricultural economy had major repercussions. Fiscal policy in the nineteenth century vividly summed up by a *vizir* as the need "to pluck the taxpayer as one would a chicken. If the taxpayer becomes wealthy, he revolts".[90] Towards the end of the nineteenth century it contributed to the exodus from the countryside to the cities.[91]

Increased economic openness inevitably had severe consequences for the urban areas as well. Some sectors, like the handicraft industry, could not compete against cheap imports. For example, weaving had a prominent presence in the city of Salé. Due to competition, the 53

[88] Miller, *History,* 39.
[89] Ibid., 11.
[90] Driss Ben Ali, "L'Etat Marocain Precolonial," *Al Asas* 56 (1983): 27.
[91] Miller, *History,* 31.

factories that existed in Salé mid-nineteenth century disappeared a few decades later.[92] The urban population faced another dire financial consequence of the open economy. State revenues relied heavily on custom duties. These were negotiated downwards, as stipulated in various international treaties concluded in the latter half of the nineteenth century. The sultan made up for the loss of this source of revenue through the imposition of new taxes which also weighed on the urban areas. It was no surprise that the cities remained restive. It did not help the sultans' popularity that foreigners were exempt from these taxes.[93] In the 1870s, it was the city of Fes which became the focal point of rebellion. The rebellion of 1870 helps illustrate the important reconfiguration of the sultans' support base which took place over the century. Whilst the sultan depended on an emerging, and increasingly wealthy, bourgeoisie, he could not ignore the impact of the opening up of the economy had on old guilds, such as those of the tanners. When violence broke out in Fes, it pitted the sultan's tax collectors and the wealthy commercial elite who had benefited considerably from foreign trade, against the traditional middle class who were partly supported by the *ulema*. The decisive use of force by the newly reformed army brought the revolts to an end.[94] This pattern of urban unrest, with some variation, would become an issue with which almost every single sultan and king had to grapple with as will be discussed in subsequent chapters.

Administrative reform was needed in order to effectively collect taxes and draw up budgets. Successive sultans managed in the latter part of the nineteenth century and early twentieth, to expand the bureaucracy. They set up ministries, secretariats and appointed more *vizirs* outside the tribes and more from the Fes commercial and religious establishment. The *vizirs* formed an increasingly cohesive group, but were dependent and focused on the sultan. It

[92] Pennell, *Morocco,* 120.
[93] Laroui, *The History of the Maghrib*, 321.
[94] Miller, *History,* 50-51.

isolated them from the rest of society.[95] Elite families from Fes, Tetuan, and Salé supplied the state with capable men who served as inspectors, overseeing tax collection in the countryside, urban areas and ports.[96]

2.2.4.3 Foreign Intervention, Commerce and the Emergence of a Local Bourgeoisie

Given its strategic location, Morocco came to play an increasingly important role in the rivalry between France, Britain and Spain, with, at the turn of the twentieth century, Germany briefly joining the fray. Britain was Morocco's main trading partner and remained so throughout important parts of this long nineteenth century. Treaties with Britain led to an intensification of trade between the two nations. Annual imports from Morocco were three times higher in the period 1861-65 than they were between 1852-54, while the exports to Morocco had doubled. This meant that of total imports, seventy-five percent came from Britain, while two-thirds of Morocco's export headed to Britain.[97] These intense trade linkages can partly be explained by the rise in tea and sugar consumption, a trade in which Britain had a leading position, and which accounted to a quarter of Morocco's imports in the last two decades of the nineteenth century.[98]

Increased foreign attention became critical as France began its colonization of Algeria in 1830. Though painfully aware of his army's weakness, the sultan attempted half-hearted resistance in response to internal pressures to stand and fight. When the confrontation did occur in 1844, Morocco was defeated at Isly and the ports of Tangier and Essaouira were heavily bombarded. It was thanks to protection granted by the British that Morocco was saved

[95] Moore, *Politics in North Africa,* 20.
[96] Miller, *History,* 34.
[97] Ibid., 23-24.
[98] Pennell, *Morocco,* 120.

from a worse fate.[99] The British once again came to the rescue in the crisis with Spain and their attack on and subsequent occupation of the northern city of Tetuan in 1859. The two year campaign only ended when the English were able to get Spain to leave. The price Morocco paid was heavy, because of the financial consequences. A financial structure was put in place which used Moroccan custom receipts as a guarantee for loans from English banks that were used to pay part of the agreed indemnity to Spain.[100]

Despite these military interventions, the sultans experienced an erosion of their power and prestige. This was particularly evident in the area of consular protection. The treaty signed in 1856 with the English, the Spanish in 1861 and in 1863 with the French, meant that Morocco's economy became even more open, and domestic monopolies under the control of the sultan were reduced. On a restricted scale, land was made available for purchase by foreigners. But most importantly, consular protection was extended, further incorporating an increasing number of foreign merchants and their Moroccan associates.[101] In one particularly humiliating instance, French protection was extended to the head of an important religious order in northern Morocco.[102]

The Moroccan bourgeoisie, which emerged over the course of the 19th century, was primarily based in Fes. The city not only housed one of the oldest universities in the Islamic world, but also a recognized merchant class rooted in the Andalusian diaspora, refugees from Andalusia[103]. Up until 1856, many merchants trading on the account of the sultan were

[99] Laroui, *The History of the Maghrib*, 317, and Pennell, *Morocco*, 116.
[100] Laroui, *The History of the Maghrib*, 318.
[101] Ibid., 319.
[102] Miller, *History,* 47.
[103] The way Fes was run is revealing in terms of how public affairs were decided on. Fragmentation prevented the rise of governmental institutions capable of carrying out municipal policies. It did not have a municipal budget. The administrative quarters were run by officials who were chosen by the governor (who was usually not from Fes) and local notables. The city notables preferred a weak person to be appointed and generally the local elite did not cooperate except along lines of specified interests (like the guilds or the religious establishment). Moore, *Politics in North Africa,* 6-7.

protected by the *Dahir*s of "*Tawquir wa Ihtiram*" (respect and protection).[104] This changed after 1856, and the merchants were allowed to retain more privileges and thus a larger part of the profit. This did mean diminished control by the sultan over this rising merchant class, comprised of the Bennis, Benjelloun and the Guessous families among others. The sultan retained power and control by granting the remaining monopoly rights, tax exemptions and certain privileged titles to these merchants. In a direct way they were indebted to him. Similar strategies would be used by King Hassan II and his son the late twentieth century. Power was maintained not only through political and coercive means, but also through interventions in the economic domain. Important sections of the business community were tied to, co-opted into or expelled from the patron-client structure. This tactic was already being used by the sultans in the pre-protectorate period.

The new roles the merchants sought as intermediaries for foreign business interests and the protection they derived from that, increased their autonomy vis-à-vis the sultan. There was more security regarding their investments and thus more prosperity for these merchants.[105] The merchants became the lynchpin of international trade, exporting, importing and distributing internally. This opened new avenues to forge links and travel abroad, as was done by the Tazis to Manchester, and the Benjellouns to London.[106] The type of activity these merchants were involved in led to the rise of what can be described as rent-seeking, instead of productive investments of the accumulated profits.[107] Accumulation of wealth was a risky undertaking in a political system in which rival groups could get hold of positions that enabled them to confiscate those resources. As a consequence it was therefore imperative to seek those positions within the administration and to fend off rivals. It was the position within the

[104] Driss Ben Ali, "Fes et son insertion dans le Capitalisme," *Al Asas* 23 (1980): 27.
[105] Benali,"Fes," 29.
[106] Ibid.
[107] Ibid.

administration that was the source of power, not necessarily the accumulated wealth.[108] This made the commercial elite still dependent on the sultan for the acquisition of these positions. Long term industrial investments were not undertaken, but instead invested in real estate and luxury consumption.[109] Over the course of the nineteenth century they diversified their sources of wealth; partly needing the sultan for monopoly and tax privileges, at the same time benefiting from the protection provided by foreign nations, and profiting from their new landholdings' agricultural export revenues. This rent-seeking business elite remained an important feature of the Moroccan political economy in the twentieth century. It is with justification that the Moroccan political economy was categorized as one of crony capitalism. The political foundations and roots of this type of ties between the ruler and the business elite can be found in the period prior to the protectorate.

Merchants had less incentive to invest in land. There were many reasons for this. Firstly, much of the land was collectively owned by tribes, religious *habous*, or owned by the state (*makhzen* land). Secondly, due to instability and the weak authority of the state over much of the land, merchants were not eager to venture into such uncertain projects.[110] A consequence of this is that merchants were not able to accumulate significant wealth through landownership which could be used later to invest in industrial ventures. However, *makhzen* land was used by the sultan to shore up support among different groups in society. Among them was the possibility for merchants to be granted by the sultan the usufruct of land. After 1850, usufruct increasingly led to actual ownership.[111] The opening up of the economy in the

[108] Waterbury, *Commander*, 31.
[109] Mohammed Rami, *Essai sur le Déploiment du Capital Privé dans le Secteur Industriel au Maroc des Origines à nos Jours* (Paris: Publibook, 2007), 50.
[110] Benali,"Fes," 26.
[111] George Joffé,"The Moroccan Nationalist Movement: Istiqlal, the Sultan, and the Country," *The Journal of African History* 26:4 (1985): 296.

nineteenth century allowed landowners to increasingly use land for agricultural exports.[112] These investments were mostly made by the urban commercial elite.

The reliance on this commercial elite and the balancing against foreign powers proved to be unsustainable for the sultans during the first decade of the twentieth century. Three significant developments made colonization almost inevitable. Firstly, Britain ceased to be the main power backing the Moroccan sultanate. Part of the reason behind this was the failure of the *tartib.* The sultan tried to introduce this universal tax in the final decade of the nineteenth century. Some saw this *tartib* as a British idea. Whatever its provenance, the tax reform was widely criticized and hated, and probably failed because of that. This failure left the state in difficult financial circumstances. This provided the French with an opportunity to make Morocco more financially dependent on France by providing Morocco with loans. The increased role of French was formalized in an agreement with Britain in 1904.[113] Due to changing international alliances, Britain ceded influence more and more to the French.[114] Secondly, and related to this was the increasing reliance on foreign loans, mostly from France, to fill the now empty treasury. Around the turn of the century, different sultans attempted and failed to impose a universal capital tax on their subjects in order to pay for infrastructural projects among others. The only recourse was foreign indebtedness, which eventually had dire consequences for Morocco's sovereignty.[115] [116] Ultimately the only way to pay for these projects was to incur substantial foreign debt. This had dire consequences for Moroccan sovereignty. The third development was the rise of unrest throughout the country, both in rural and urban areas. This was partly due to infighting within the ruling dynasty. In a palace

[112] Benali,"Fes," 26.
[113] Miller, *History,* 61-62.
[114] Ibid., 72.
[115] Ibid., 61-62.
[116] Pennell, *Morocco,* 130.

battle in 1907-08, it was the leader[117] of the Kittani brotherhood, supported by the urban poor and the old guilds of Fes, which proved to be a decisive factor in supporting one sultan against his brother.[118] Bad harvests and urban unrest meant a volatile situation which was exploited by the French using every security pretext to advance more and more on Moroccan soil. The end result was the declaration of the Protectorate in 1912, dividing Morocco in a northern Spanish part, with the rest to be governed by the French.

If one focuses on just the few decades before the start of the protectorate it is understandable to view the end of the long nineteenth century as a consecutive set of failed reforms. Yet, given the challenges described above and the balancing act of the ruling sultans, one could argue that the Moroccan state exhibited remarkable resilience under trying circumstances. These formative stages resulted in a state which had the capacity to implement change. But it was of a specific type. The state took a strategic approach, with reform unfolding in a cautious manner, showing only a more decisive approach in the areas where the state could show maximum strength, like army and tax reform. The reform process though, hinged too much on the person of the sultan instead of an impersonal administrative and centralized structure. It was "the sultan himself, coordinating, directing, cajoling, and sometimes figuratively whipping the bureaucracy into action".[119] The foundations were laid by successive sultans for a system in which "the authority of the ruler was based on a combination of *baraka*, or prestige from the family's own religious lineage, the power of the army, and the use of patronage to enhance or destroy the fortunes of notables, merchants and *ulema*".[120]

[117] The leader of this brotherhood was later deemed too much a threat and was killed by the new sultan.
[118] Pennell, *Morocco,* 133-134.
[119] Miller, *History,* 29.
[120] Emma Murphy, "The State and the Private Sector in North Africa: Seeking Specificity," *Mediterranean Politics* 6:2 (2001): 19.

The sultan, the small commercial urban elite and tribal chiefs were in the main allied to keep the system functioning. But this came at the expense of the rural and urban masses, with the main tax burden swinging between the two based on the individual whims and political requirements of each successive sultan. Thus, this system was characterised by a patrimonial political structure, in which patronage was controlled by the sultan, and later the king.[121] Although this system meant that there was a certain predictability to what can otherwise appear a fluid system, it did mean that the "Moroccan political system remained highly and capriciously segmented".[122] As such it did not provide a stable enough base on which to promote development. The introduction of foreign influence slowly but steadily eroded this weak governance system. How the new colonial powers built and reordered existing structures will be the subject of the next section.

2.3 Morocco under Protectorate Rule

Morocco became a protectorate in 1912. It lasted just 44 years, ending in 1956. There are three aspects of this protectorate period which makes the Moroccan experience unique. Firstly, it was relatively short. Secondly, Morocco managed to stave off colonization until the twentieth century. This late colonization meant that the process was different from what other countries experienced in the 19th century. The fact that it was referred to as a protectorate rather than a colony is illustrative of this different experience.[123] Lastly, Morocco was partitioned in separate protectorates. Northern Morocco became Spanish, with the exception of Tangier.[124] Spain colonized the vast desert area in the south, which was referred to as the Spanish Sahara. In between them was the French part of the protectorate. Important to note is that the sultan maintained his legal status as the sovereign in the two protectorate areas.

[121] Murphy, The State and the Private Sector, 20.
[122] Moore, *Politics in North Africa,* 17.
[123] Ibid., 39.
[124] The fate of Tangier was decided in 1923, making it an international city under the nominal sovereignty of the sultan.

These three key features of the protectorate period affected the Moroccan political structure in distinctive ways, and continues to do so today. As such, becoming a protectorate was a critical juncture in Morocco's political-economy history. In this section, a brief overview of milestone events of the protectorate period will be provided first. This is followed by a description of how Morocco was ruled during this period, as the new institutionalized political structures, had profound implications for post-independence state-business relations. The third section provides an overview of the most important economic developments. The final section deals with the independence movement as the relationship between the nationalists and the sultan had a lasting influence on the ruling coalition that emerged post-independence.

2.3.1 Brief Overview of Protectorate Period

The sultan was forced to abdicate in favour of his brother in 1912. 'Pacifying' the country took the French a sustained military effort which lasted until 1934. Though the French took control of the cities early on, they needed a longer campaign to suppress resistance in the south and in the Atlas mountains. Even more problematic were developments in the Spanish-controlled north. The 1921 Rif rebellion, led by Al-Khattabi in 1921 against the Spanish, proved to be so successful that the rebel army even advanced on French-controlled Fes. However, the rebel army was eventually defeated in 1926, through the concerted effort of the Spanish and French.

Even before the colonizers gained complete control over Moroccan territory, a nationalist movement began to emerge. The first signs of an embryonic movement were noticeable following a decision taken by the French in 1930, the Berber *Dahir*[125], which was

[125] A Royal decree. The sultan signed off on the decrees issued by the French administration. The Berber *Dahir* was an attempt to codify customary law in the Berber areas. It was meant as a way to separate

perceived as an attempt of divide and rule by the French of the largely rural Berber population and the Arab urban-based population. This galvanized young nationalists. Men like Allal Al Fassi, Mehdi ben Barka, Ahmed Balafrej and Mohammed Hassan Al-Ouezzani, became leaders of a nationalist movement. Eventually this led to the creation of different parties, but by far the strongest was the Istiqlal[126] party, founded in 1944 and led by Allal Al-Fassi. The, mainly urban, unrest was suppressed, but the French had to abandon their initial idea of the Berber *Dahir*.

A crucial decision was taken in the early thirties by some of the leaders in the nationalist movement. They sought to tie the independence movement to the sultanate. This was partially to avoid being seen by the sultan as republicans and partially to find a national symbol around which the masses could rally.[127] For example, in 1933 a "festival of the throne" was created. The young sultan, Mohamed V, who became sultan in 1927, met leaders of the movement but did not openly side with their cause.[128] His attitude changed over the course of the Second World War. Morocco was now governed formally by the Nazi collaborating Vichy regime[129]. The more prominent role of the US on the world stage changed the political dynamics in Morocco as well. The visit to Casablanca by Roosevelt and Churchill in 1943, and the use of Morocco as a launch-pad for the Africa campaign, led the nationalists to hope that by the end of the war independence could be achieved through international backing.[130] However, formal US backing never came and the French remained in control of Morocco after the war. Perhaps it was this that drove the sultan to side with the nationalists in his 1947

customary law governing Berber areas from Islamic law, even though Berbers were muslim too. Miller, *History,* 126.

[126] Istiqlal means independence. The creation of this party coincided with the publication of the "Manifesto of Independence" in 1944.

[127] Waterbury, *Commander,* 48-49.

[128] Miller, *History*, 131.

[129] The sultan apparently did not cooperate with the Vichy regime in deposing Moroccan Jews. He regarded them as his subjects and thus falling under his sovereignty.

[130] Pennell, *Morocco,* 157.

speech given in Tangier. Having tied himself to the cause, the independence movement gathered pace. Trying to halt it, the French exiled the sultan to Madagascar in 1953. The French were backed in this move by Glaoui, the Pasha in the south and Al Kittani, the leader of the Kittani religious brotherhood[131]. By this stage, the independence movement had grown too strong with a largely rural-based armed liberation movement taking up arms against protectorate authorities. Eventually, sultan Mohamed V returned and Morocco became independent in 1956.[132]

2.3.2 Protectorate Rule and Administration [133]

Under the French protectorate Morocco's governing structure was largely determined and implemented by its first resident-general Lyautey. His policy had two important components. Firstly, the restructuring of central authority, in which he deliberately maintained traditional structures of the pre-protectorate period, while in the mainly rural areas, the pre-protectorate policy of working through local chiefs was continued.[134]

The confirmation of the position of the sultan as the legal sovereign was the central piece of reforming state structures. The sultans' religious position as commander of the faithful was also affirmed. Despite this, the sultans' actual power was curbed. The measures to be taken were coming from the French Residence. The sultan was there to ratify these measures. The sultan also lost his power in the area of diplomacy and even war. He maintained

[131] He held deep grievances against the Alawi dynasty for the brutal murder of his brother in 1909.
[132] Pennell, *Morocco,* 161.
[133] The focus is mainly on the French part of the protectorate. Spain ruled the north in a similar fashion, through the *khalifa* who fell under the nominal authority of the sultan. The north as economically less useful than the French parts. The instability in Spain between the wars and the lack of capacity to set up a colonial infrastructure, meant that the northern part of Morocco was not as profoundly affected by colonialism as the French part.
[134] Another important area is the relationship with the religious orders. Many were based in rural areas and were criticized by the (urban based) *ulema* as heretic because of the saint worshipping. In addition, there always existed an uneasy relationship with the Alawi sultans. It was probably therefore that the French saw in them a counterweight and found them ready to collaborate in exchange for autonomy. Waterbury, *Commander,* 44.

some powers in the legal and religious department, given that this was closely tied to his role as commander of the faithful. The administration of cities and tribal areas fell under the prerogative of the grand *vizir*, who in turn was answerable to the sultan. Yet, even this part of the Moroccan state was closely supervised by the separate protectorate departments. Similarly, the grand *vizir* had little power to initiate measures. He was tasked to ensure that the flow of directives and decrees, originating in the protectorate departments, eventually reached the sultan.[135]

This created a dual system. Real power, efficiently executed by mostly French nationals thus remained firmly in French hands, whilst, an amputated 'traditional' part devoid of real power was supervised directly by the French resident-general himself. One could argue this dual system still exists today, except that roles are reversed. On the one hand is the royal cabinet, staffed with well-educated Moroccans working under the direct supervision of the king and his senior advisors. This part oversees and intervenes to a large extent in the workings of the government and the ministries.

In order to extend control to the rural areas, the French adopted a policy of co-option. The policy was largely based on the sultan's pre-protectorate policy of reliance on local chiefs. The French continued relying on the Glaoui, Mtougi and Goundafa families in the south. At the same time, when an area was 'pacified' the French installed a chief whom they deemed strong enough for the task to administer the zone on behalf of the protectorate. Such a chief was then appointed as *caid*[136] by the sultan, and thus incorporated in the royal system. The *caid* had almost absolute power in the areas under his control. He was allowed to levy taxes for his own treasury and many expanded landholdings during this period. Despite this, the *caid* was

[135] Abdeslam Baita, ""Reversion to Tradition" in State Structures in Colonial Morocco," in *The Moroccan State in Historical Perspective (1850-1985)*, ed. Abdelali Doumou (Dakar: Codresia, 1990), 32-37.
[136] Rural administrator and chief.

closely supervised by the French. He was expected to support the military effort of the French through the provision of soldiers from tribes in his area. The French policy of co-opting *caids* was nothing new and had been used before the protectorate period. But there were two important changes. The French relied on this policy in areas previously not run by local strongmen, but through (consultative) tribal assemblies. The introduction of these *caids* altered the governance fabric of these tribal areas. Secondly, the *caids* were firmly and formally entrenched within a royal system.[137]

To oversee and control these local Moroccan chiefs, the French divided Morocco up into separate administrative units. Each region was run by a French *chef de région*. The chef was appointed by the resident general, and was tasked with overseeing the Moroccan officials and local chiefs within it. Considerable power was delegated to the local level, including the provision of public services and tax collection.[138]

As we will see in later chapters, Morocco's present governance system continues to rely to a large extent on the usage of local notables, especially in rural areas. This can be seen in how elections are run or in the implementation of development projects. Ultimately the seeds for the modern administration of these rural areas were laid by French reforms, in their turn emanating from pre-protectorate practices. Similarly, the current *wali's* (regional governors) are appointed by the king and fall under the authority of the Ministry of Interior. They have considerable power and fall outside the control of elected local and regional bodies.

2.3.3 Economic Transformation

The French embarked on a modernization program, starting with the building of basic infrastructure. The business environment in Morocco was attractive for private investors given

[137] Baita, "Reversion to Tradition," 37-44.
[138] Waterbury, *Commander,* 40-41.

the liberal economic policies enshrined in the Treaty of Algeciras of 1906.[139] Combined with low taxes and wages, this liberal environment encouraged private investment which reached 48% of total investment in the French zone during the protectorate period of 1912-1956.[140]

The investors and colonial administrators were mainly interested in the agricultural potential of Morocco. It was only with the discovery and exploitation of significant phosphate[141] reserves that more attention began to be paid to mining and industrial development. Agricultural colonization took off after 1918, resulting in a rise of European ownership of agricultural land from 73 000 ha in 1912 to one million ha in 1956. Favourable prices, preferential allocation of prime location in the most fertile areas and important irrigation projects greatly benefited foreign landowners. One of the side effects of European involvement was the emergence of large scale settlements, with 60% of the one million hectares in the hands of just 900 holdings. On the eve of independence, 5000 Europeans comprised a significant group of large landowners and businessmen.[142]

Compared to the agricultural sector, industry did not receive the same attention. One reason, as already mentioned, was a liberal economic regime, which prevented French authorities from favouring investments by its nationals. However, the Great Depression and the Second World War provided the protectorate authorities with the legal cover to abandon the liberal economic stipulations of the Treaty of Algeciras and to use wartime controls to protect nascent industrial enterprises from foreign competition. This led to more interest from

[139] The treaty prohibited tariff protection and made it difficult for the state to protect selected enterprises. Despite the regular circumvention by the protectorate authorities of these provisions, Morocco still remained an economy with little state protection for specific enterprises and few restrictions on private sector activities.
[140] William Hoisington, "Commerce and Conflict: French Businessmen in Morocco 1952-1955," *Journal of Contemporary History* 9:2 (1974): 49-50.
[141] *Office Cherifien de Phosphate* (OCP) was created by the French in 1920.
[142] Peter Sluglett, and Marion Farouk-Sluglett. "Modern Morocco: Political Immobilism, Economic Dependence," in *North Africa: Contemporary Politics and Economic Development*, ed. Richard Lawless and Allan Findlay (New York: St. Martin's, 1984), 68.

French industrialists in investments in Morocco.[143] It became a country where investment by the authorities in public projects was complemented by investments made by the private sector. The main beneficiary of the influx of capital was the new textile industry.[144]

French economic actors in Morocco were not a monolithic group. Those with business interests in France and elsewhere in the world had different interests in Morocco than the smaller, mainly agricultural settlers.[145] The latter were more strongly influenced by developments in Morocco and had fewer options in terms of exit strategies. In a sense, their fate was more closely linked to Morocco's development. This undoubtedly influenced their behaviour towards economic policies pursued by the administrators. For example, among French businessmen, owners of medium-sized enterprises were more in favour of liberal economic policies than those who headed subsidiaries of large French firms.[146]

In the decade after the Second World War, the Moroccan economy was achieving high growth rates, growing from an average of 3.6%, between 1930-1955, to 6%, between 1948-1955. This was mainly due to the strong performance of the emerging industrial sector, which grew by 7% between 1948 and 1956. Returns on investments were used to diversify the industrial basis of Morocco. However, despite these efforts, Moroccan industrial development, which started from a very low level, did not achieve a high degree of diversification. This resulted in a concentration of industrial activity in light and basic industry. Thus, economic development in Morocco remained dependent on colonial agriculture and mining.[147] The dependence of Morocco on foreign investment was a fundamental weakness which was

[143] Charles Stewart, *The Economy of Morocco 1912-1962* (Cambridge: Harvard University Press, 1964), 117.
[144] Sluglett and Farouk-Sluglett, "Modern Morocco," 68.
[145] Octave Marais, "The Ruling Class in Morocco," in *Man, State, and Society in the Contemporary Maghreb,* ed. I. William Zartman. (London: Pall Mall, 1973), 184.
[146] Hoisington, "Commerce and Conflict," 49-50.
[147] Samir Amin, *The Maghreb in the Modern World* (London: Cox & Wyman, 1970), 164-165.

exposed when in 1955, a year before political independence, capital inflows were reversed. Although Morocco became politically independent in 1956, economic independence was an entirely different matter with "large-scale agriculture, foreign trade, and virtually all industry, almost entirely in foreign hands".[148]

2.3.4 The Independence Movement

It is of interest to delve deeper in how the protectorate governance structures affected both the old urban and rural elites, and which parts of these elites joined and supported the nationalist movement. This affected the ruling coalition which emerged after independence and hence the type of state Morocco became.

As we saw in earlier sections, the old Moroccan commercial elite started to adapt to foreign penetration even before the beginning of the protectorate in 1912. The French reliance on traditional structures for indirect rule in effect strengthened the position of these old families. Structures regulating urban commerce were kept in place. The commercial elite faced new competition through the emergence of modern sectors in the economy. Yet, they managed to increase their wealth by carving out a stake in these new sectors. The short duration of the protectorate meant that the old commercial elite did not face the challenge from new local elements who could have used the opportunities provided to them by the French.[149] By the end of the protectorate these families were still firmly in place in terms of

[148] Sluglett and Farouk-Sluglett, "Modern Morocco," 69.

[149] This point is illustrated by Moore who points out that in 1931, there were 119 Tunisian students in France, but just 11 Moroccans. In the year of independence in 1956, there were 862 Tunisian students in French universities, against just 400 Moroccans. Based on anecdotal evidence, 30% of Moroccans studying in France in 1947-48 were originally from Fes. In sum, less Moroccans had started to use educational opportunities and those who did came to a large extent from the old elite. Moore, *Politics in North Africa,* 49.

wealth and power.[150] However, their experience during the protectorate period was not one of constant improvement.

Around 1935, the commercial elite's influence was waning due to the development of modern administration and economic sectors. They were ill-equipped, mainly in terms of lacking the necessary educational requirements to fully reap the benefits from the economic transformation. The French were more interested in dual development by which they could control the country through traditional channels of authority whilst developing and administering the country through a modern sector. Despite the old elite's attempts to gain access to the French-run administration through modern educated sons, matters worsened for some of the Moroccan elite families that worked closely with the French. This became apparent in the economic field. The Fassi families took advantage of the economic opportunities and infrastructural developments by moving the focus of their economic activity to the modern city of Casablanca. There they increasingly encountered an administration which protected European economic interests, especially after the Great Depression and the Second World War. The acquisition of, for example, building permits and import licenses became more difficult, with sometimes discriminatory practices adopted by the authorities.[151] Feelings of increased exclusion and the need to protect private interests was part of what motivated these elites to support the independence movement.[152]

The independence movement originated in Fes. It started as a reform movement, and only in 1944 did it openly call for independence. The social origins of this movement lay in the urban middle class and the families of the old commercial elite[153]. Many had been educated at

[150] Moore, *Politics in North Africa,* 46-47.
[151] Marais, "The Ruling Class in Morocco," 184-185.
[152] Waterbury, *The Commander*, 42.
[153] The main leader, Al-Fassi was an archetypical product of the Fes elite. A student activist during his years at the Qarawiyin university, he became influenced by the Islamic modernizers in the Middle East.

traditional institutions like the Qarawiyin university in Fes, but some had been educated in modern French schools.[154] In the urban areas, the nationalists could count on the support from the middle class, traders and the artisans, most of whom were adversely affected by the protectorates' economic policies. The nationalists used traditional methods to reach their target audience. For example, mosques were used to agitate against the Berber *Dahir* in 1930. Even though the nationalists were modernizers and saw the saint-worshipping religious orders as anachronistic and heretic, they still organized the movement in ways resembling the religious orders. This helped increase their appeal among the wider public.[155] Despite this, the message remained restricted to the urban areas. By 1937, membership of the movement did not exceed 6500 members.

It was only after the Second World War, and more importantly after sultan Mohamed V threw his weight behind the nationalists, that their ranks reached 80.000 by 1952.[156] This spike in membership can be explained by the sharp rise in urbanization of the Moroccan population. Morocco had a predominantly rural population at the start of the protectorate. Although by the end of the protectorate this was still the case, one can discern a marked increase in migration to the urban areas.[157] Between 1930 and 1955, the proportion of Moroccans living in urban areas nearly quadrupled, most of them coming from rural, mainly

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A firm believer in Islamic reform, but at the same time an innovator. He believed in the adoption of liberal constitutionalism with a role for the monarchy.

[154] Joffé,"The Moroccan Nationalist Movement," 290-91.

[155] Ibid., 292-294.

[156] Moore, *Politics in North Africa,* 73-75.

[157] Morocco experienced relatively little social mobilization if compared to the other two North African nation under French rule, Algeria and Tunisia. It did however surpass both when it came to employment in the non-agricultural sector. In 1955, 23% of Moroccans were employed outside of the agricultural sector, while this figure was a mere 11% for Tunisia and 12,5% for Algeria. Being able to find jobs meant that there was less social unrest than one would expect from such a large move. The newly urbanized remained closely linked with the rural areas they hailed from and were less unionized than for example the urban workforce in Algeria and Tunisia. Hence, social mobilization was not accompanied by political mobilization at the same degree as it happened in neighboring Algeria. Moore, *Politics in North Africa,* 55.

Berber areas.[158] They sought employment in the modern sectors set up by protectorate authorities, thus formed a working class from which the nationalist movements would ultimately recruit.[159] Partly to tap into this source of recruits, a labour union was created in 1955, the Moroccan Union of Labor (UMT). Although nominally attached to the Istiqlal, it did not completely fall behind party lines.[160]

Another important element of the increased appeal of nationalism in Morocco after the Second World War is the role played by the rural elite. This landowning elite, sometimes referred to as rural notables, had benefited from acquiring land before the advent of the protectorate. Some became part of the protectorate governance system and thus consolidated their possessions[161]. The arrival of settlers and growing exposure to the volatility of world markets had adverse effects on this group and their fortunes. Yet, they also benefited from the fact that more land came under cultivation. More importantly, they benefited from French property registration and the possibility to acquire more land during the protectorate period[162]. The French increasingly used the rural notables and their offspring in rural administration. Their wealth grew and they were able to afford property in urban areas. This brought them increasingly in touch with the urban based nationalists. But they did not throw their weight behind the independence movement from the start. There remained a sense of mutual dislike and distrust between the rural notables and the urban based nationalists. The rural notables were too entrenched within the French administration and their economic

[158] Moore, *Politics in North Africa,* 55-56.
[159] Waterbury, *Commander,* 35.
[160] Ibid., 55.
[161] The French designed an educational system intended to keep the sons of the mainly Berber rural notables away from urban centers. They would be educated in places like the Azrou College and find employment in the lower ranks of the protectorate administration. Some would be recruited into the army. Waterbury, *Commander,* 112-114.
[162] Reliable figures on the size of the group are not readily available, but what is clear is that the rural notables consisted of a small group at the top with vast tracts of lands and a larger group of more medium sized landowners. Waterbury, *Commander,* 112 and Joffé,"The Moroccan Nationalist Movement," 299, fn 62.

interests were not as threatened by the protectorate, unlike some of the urban commercial elite.[163]

What prompted the rural notables to eventually side with the nationalists was the fact that the sultan sided against the French in a subtly delivered speech in Tangier in 1947. By then, the rural areas had suffered through the Great Depression, the Second World War and several droughts. A widening group among these notables were slowly realizing that their economic interests were threatened by the continuation of the French protectorate. The sultans' speech gave them a political signal to mobilize and side with the nationalists. From 1953 onwards, support from an increasing number among the rural notables provided the enabling environment for a rurally based army of liberation to attack the French.[164]

2.4 Conclusion

The Moroccan state in the pre-protectorate period can best be characterized as a weakly centralized state with fragmented political power. The sultan did not have a strong state apparatus and army at his disposal to control the territory under his nominal rule. Different sultans relied on continuously changing alliance with rural notables, urban commercial elites and to an extent foreign protection (mostly from the British). This reliance on foreign support led to a gradual encroachment on Moroccan sovereignty. It also led, through the system of protection of a rising business community which forged links with foreign partners and was less dependent on the sultan. The weak powerbase of the different sultans and the accompanying uncertainties did not lead to large scale development projects carried out with accumulated profits from trade. Wealth acquisition through land was initially also quite limited. At the eve of becoming a protectorate, together these factors gave rise to a

[163] Joffé,"The Moroccan Nationalist Movement," 295-299.
[164] Ibid.

relationship between the sultan and the commercial elite which was mostly founded on patronage and rents.

The establishment of the protectorate modified the pre-protectorate system in important ways. As such it proved to be a critical juncture. The most important single decision was the strengthening of the sultanate. This meant that the Moroccan sultan retained a political role, however limited it initially was. The second important modification was the strengthened position of the rural notables. Their counterparts in the urban areas were to some extent benefiting from colonial rule as well. The effects of the Great Depression were felt among the urban elite and it was part of the reason why they lent support to the independence cause. The independence struggle thus involved four actors; the French, the sultan, a largely urban-based independence party and the rural notables. When the latter three finally found common cause after 1947, it signalled the end of protectorate rule in Morocco. It was at the same time clear that the decisions taken by the sultan, the Istiqlal party and the rural notables in the first few years after independence would determine the type of ruling coalition in Morocco and consequently state-business relations. As such, the different strategic actors and their actions would lay the basis for what Kohli described as a fragmented-multiclass state. This was defined in the introduction as a state in which power is not concentrated in the hands of a few. A ruler's powerbase is more dispersed and the authority of the state does not affect all sections of society uniformly. In such states, policies address the needs of opposing social factions and consequently are frequently implemented only half-heartedly. The development outcomes these policies are designed to support are not always positive.[165] The next chapter contains examples of such policies in the agriculture and industrial sectors.

[165] Kohli, *State-Directed Development,* 9-12.

On the eve of independence it was not certain if the sultanate would survive and if so whether Mohamed V would accept what appeared most probable - a one party state dominated by the Istiqlal. In the latter case, the commercial elite tied to this party would have had disproportionate influence. This would have come at the expense of the rural areas in terms of economic policies. How this struggle played out and how it affected economic policies and state-business relations in the first few decades after independence is the topic of the next chapter.

3. State-building and development in post-independence Morocco

3.1 Introduction

This chapter provides an overview of the political economy of Morocco between 1956 and 1972. It covers the period between independence and when the monarchy was threatened by two attempted military coups in 1971 and 1972. The chapter deals with the last years of King Mohamed V, and the first decade of King Hassan II who assumed the throne after his father's death in 1961.

A good understanding of state-building is necessary to explain the type of state-business relation which currently exists and its evolution. In the literature review on state-business relations in chapter one, I noted that Waldner emphasized how elite conflict and the coalitions forged by the elite with peasants and workers during state-building, is key to understanding development trajectories of late developing countries.[166] Similar to sultans in previous centuries, King Mohamed V faced several challenges in securing his rule in the immediate aftermath of independence. In addition to changing his title to king, more far reaching decisions were needed. Foremost was how to deal with the Istiqlal. Finding a balance with this new political force had profound implications for state-building in Morocco. As such, the first few years after independence can be seen as a critical juncture in which the most important actors made strategic choices which in turn would provide a path dependent trajectory of state-business relations.

[166] Waldner, *State Building,* 1-10.

The institutionalization of power, in turn, had important consequences for economic policies. These policies affected different sections of society in different ways. The chosen policies and their outcomes are an important indication of the relationships sought between the state, with at its head the king, peasants, workers and most importantly, in relation to the argument put forward in this thesis, the private economic sector. Understanding these coalitions provides the necessary material to help categorize the state in Morocco along the typographies of states outlined by Kohli, and discussed in the theoretical chapter. Should Morocco in this early period of state-building be classified as a neo-patrimonial; a fragmented-multiclass state or a cohesive-capitalist state?

The post-independence period lasting between 1956 and 1972, can be characterized as one in which monarchical rule was institutionalized at the expense of the organized nationalist movement embodied in the Istiqlal Party. An alliance was struck with the rural areas, most importantly it was a continuation of the reliance on rural notables institutionalized under the protectorate administration. In the economic realm, the building blocks for an import substitution policy were laid. This policy gave rise to a particular type of state-business relationship, one in which the commercial elite strengthened its economic base in a protected environment. Corruption became an increasing characteristic of the economy. This system came almost to an end when elements of the army attempted a take-over in 1971. After the second attempted coup in 1972, profound changes were needed in the political and economic structures. This will be the subject of chapter 4.

This chapter is divided in three sections, the first covers the main political developments, while the other two sections deal with agrarian reform and industrial development respectively.

3.2 Institutionalization of Power during Early Independence (1956-1972)

On the eve of independence, Morocco differed from the pre-protectorate sultanate in one important aspect. Ruling over the entire territory of Morocco was now a feasible objective, because of the largely successful French efforts in controlling and administering the country as an integrated whole. Deploying and restructuring the institutions left behind by the French enabled the monarchy to become a dominant centrifugal force by the end of the 1960s. This was achieved largely by controlling the security forces and deliberately fragmenting the political scene.

3.2.1 Setting up a Praetorian Guard

In the crucial first month after independence, it was the king who made the decisive move to control the security apparatus. More importantly, the king integrated the Army of Liberation with Moroccan sections of the French colonial army. This task was facilitated by the fact that the largely rural Army of Liberation pledged allegiance to the king and was known as a staunch anti-Istiqlal force. The colonial army was mostly made up of soldiers of rural and Berber origin. They were led by men like Major Mohammed Oufkir[167] and Mohammed Ben Mezien[168]. In addition, the king seized control of the former colonial police force.[169] In 1957, Hassan was designated Crown Prince and made chief of staff of the new national army, renamed FAR (*Forces Armées Royales*). A year later, with the help of Oufkir, a rural rebellion in the north was brutally crushed.[170] This ushered in a period in which Hassan II increasingly relied on the army and which lasted until the military coups of 1971-72.

[167] A graduate from the Azrou College, a veteran of the wars fought by the French in Indochina and a participant in the Allied invasion of Italy at the end of WWII.
[168] A high ranking officer in the Spanish army. One of his daughters would marry the financial tycoon from Fes, Othman Benjelloun.
[169] Pennell, *Morocco,* 164.
[170] Miller, *History,* 156-157.

The mainly rural origin of the army proved an important counterweight to the urban-based political parties. As we saw in the preceding chapter on the protectorate period, many in the colonial army were recruited from rural notable families. The new alliance between the army and the king strengthened this bond with the rural nobility. The senior army brass was integrated into the patronage system of Hassan II. In order to tie them more closely to the crown, they were allocated land and property left behind by departing Europeans. The army grew in size and senior generals were even appointed to civil government positions, whilst, important governor positions went to army officers.[171] In 1965, unrest in major cities led to the declaration of a state of emergency. The urban riots were suppressed by Oufkir, in his new role as Minister of Interior. He had acquired this position in addition to an important role in the secret services[172]. As such, power in Morocco was largely concentrated in the hands of a monarch who increasingly relied on the army and the intelligence services for his survival.[173] This proved to be a vulnerable position, as will be discussed later in this chapter.

For state-business relations, and economic development in general, it meant that the monarchy was not dependent on economic development for its survival. State agencies were created, plans developed, with little to show for in terms of generating economic development. This will be described in more detail in the latter part of this chapter. Thus, the elite which emerged from this era benefited from Hassan's state expansion and protection. This led to a relationship between the king and a section of the private sector that was in essence built on patronage and corruption. Corruption proved one of the main motives for some of the army officers to move against the monarch in 1971-72. How the king allowed and

[171] Michael Willis, *Politics and Power in the Maghreb: Algeria, Tunisia and Morocco from Independence to the Arab Spring* (London: Hurts & Company, 2012), 83-85.
[172] It was therefore not surprising that the name of Oufkir appeared in the dossier surrounding the disappearance of the left wing leader Ben Barka in Paris in 1965.
[173] Miller, *History,*171.

incentivized a system to emerge with such rampant corruption in the absence of a political system is the focus of the next section.

3.2.2 Fragmenting the Political Scene

The king relied on two roles in order to preserve his position. The first involved his position as 'commander of the faithful.' This more traditional role was used especially by Hassan II to cover for any perceived lack in popularity of the sort his father enjoyed because of his role in the independence struggle. The second was that of arbiter of a fragmented political environment. Remaining above the fray of party politics added power to the institution of the monarchy. As noted by Waterbury, "a sort of circular strategy is thereby put into effect: by encouraging intergroup rivalry, the necessary conditions for discontinuous political leadership are maintained, and the need for a symbol of political continuity is accentuated."[174]

Between 1956 and 1970, Mohamed V and then Hassan II assiduously worked to redraw the political map. This was aided by the breakup of the independence movement, something both Mohamed V and Hassan II actively encouraged. One practice which exacerbated fragmentation and was used extensively by both father and son, was the continuous changing of government. These changes were intended to reward supporters or to encourage splits within political parties. The first government appointed in 1955 left the Istiqlal with fewer ministries than they were hoping for. The remainder was filled with ministers from smaller rival parties and independents, including the prime minister, loyal to the king. In 1958, two governments were formed consecutively, the first headed by someone from the conservative faction within the Istiqlal, the second headed by a prime minister from its more progressive wing. This type of appointments by the king eventually led to the split of the Istiqlal in 1959. Broadly speaking the old independence party broke down into the more left-

[174] Waterbury, *Commander,* 146.

leaning National Union of Popular Forces (UNFP)[175], and a more conservative faction led by Al-Fassi.[176] The support and leadership base of the UNFP was largely made up by members from modest, middle class backgrounds. The UNFP was predominantly successful in attracting bureaucrats and professionals. The division of the independence movement meant those who remained within the Istiqlal were mostly representative of the upper urban middle class and wealthy landowning class.[177]

As the Istiqlal and the UNFP were largely urban-based, there was space on the political spectrum for a rural (mostly Berber)-based party. Filling this gap, the *Mouvement Populaire* (MP) emerged in 1957[178] and was legalized in 1959, the same year the Istiqlal split. The MP was antagonistic towards the Istiqlal and expressed more loyalty to the monarch. In subsequent elections, the MP provided a platform for the rural notables, unsurprising given that the majority of elected candidates from the MP were landowners themselves.[179] Some of these newly elected landowners had been *caids* under the protectorate. The remainder of the party was filled with young political and administrative cadres who were unable to acquire a position within the Istiqlal. Others, merely sympathized with the oppositional stance taken by the MP towards the Istiqlal.[180]

Within a year of the division of the independence movement, Mohamed V took full control by appointing himself prime minister and his son as his deputy. After Mohamed V death in 1961, Hasan II continued undermining the Istiqlal and the UNFP. Pro-palace

[175] The UNFP was led by men like Ben Barka and El Youssoufi. The first went into exile and disappeared in Paris. El Youssoufi went into exile as well, but became prime minister in the last years of Hassan II.
[176] Willis, *Politics,* 45.
[177] Marais, "*Ruling Class,"* 191.
[178] Two of its leaders, Aherdane and Khatib were also prominent members of the Army of Liberation. Khatib would became the first chairman of the Islamist PJD in the late nineties.
[179] Remy Leveau, *Le Fellah Marocain: Défenseur du Thrône* (Paris: Presses de la Fondation des Sciences Politiques, 2nd edition, 1985), 53.
[180] Marais, "*Ruling Class,"* 189.

independents were grouped under the Front for the Defence of Constitutional Institutions (FDIC). It was set up by the Minister of Interior and royal ally Guedira, with the apparent blessing of the king in 1963. The FDIC brought together politicians without party affiliation. Another group which joined this front was the MP.[181] The independents within the FDIC were mostly composed of intellectuals, urban and rural notables and technocrats.[182] The forming of the FDIC made it possible for Hassan II to remove the last members of the independence movement from government in 1963. However, dominating the political scene did not mean that society in general remained peaceful. The mid-1960s were marked by increased urban unrest. This ultimately led Hassan II to declare a state of emergency in 1965. From then on, the king ruled by decree.[183]

Despite the king's increasing power the Istiqlal and UNFP remained present on the political scene. In elections in 1960 and 1963[184], these parties rallied considerable support, demonstrating that, despite political difficulties, they still had a considerable following. In 1960, The UNFP surprised many by doing well in the local elections for the Chambers of Commerce and Industry. Similarly, both UNFP and the Istiqlal did well in the first municipal elections of 1960, and again in the parliamentary elections of 1963.[185] The 1963 result was the more remarkable given that both parties were up against the royal-backed FDIC. Not being able to contain the diverse interests under the umbrella of the FDIC led quickly to its demise. The more liberal attitude towards political parties changed after the state of emergency was declared in 1965. Party activities were no longer possible after this point. In particular left-wing politicians were the victims of a crackdown in the late 1960s.

[181] David M. Mednicoff, "Morocco's Political Parties," in *Political Parties in the Middle East and North Africa*, ed. Frank Tachau. (Westport: Greenwood Press, 1994), 387.
[182] Miller, *History,* 157.
[183] Willis, *Politics,* 69.
[184] Even though accusations of vote rigging against them were made by the two parties.
[185] Waterbury, *Commander,* 136-137 and 261.

Meanwhile, the position of the monarch was enshrined in two consecutive constitutions. In the 1962 version, some room was left to other institutions such as the parliament and government. The constitution contained an article emphasizing multi-party politics. Yet, ministers remained accountable to the king and both the king and the monarchy, as an institution, were deemed to be inviolable. The 1970 constitution vested more powers in the hands of the king. By then, Hassan II had been ruling by decree for five years. The 1970 version merely formalized in writing the absolutism the king had already been practicing since 1965.[186] Although the Istiqlal supported the 1962 constitution, it joined the UNFP in a National Bloc (*al-Kutla*) boycotting the referendum on the 1970 constitution, and the subsequent parliamentary elections.[187]

The choices made by the monarchy in the first few years after independence affected relationship between the monarchy, the rural elite, the urban elite and the army in a profound way. It constitutes a critical juncture. Even though the decision by the monarchy to form an alliance with the rural areas and the army seemed a continuation of past practices under the protectorate, it still was an important choice to cement and maintain this alliance. Recall that part of the definition of a critical juncture is not necessarily a change of institutional configuration, but the fact that a choice was made at a critical point in history when other strategic choices were also an option. For example, an alliance with the urban elite. However, this would almost certainly have meant a reduction in the central power of the monarchy. The strategic choice to ally the monarchy with the rural areas and to rely on the army for protection, would affect Moroccan economic policies in the following decade and half as will be discussed in the next two sections.

[186] Willis, *Politics*, 69.
[187] Miller, *History,* 164 and Willis, *Politics,* 69 and 126.

3.3 Development in a Fragmented-Multiclass State

In the next two sections an overview and analysis is provided of how agricultural reform and industrialization policies were implemented. Executed in a half-hearted fashion, I contend that this illustrates the analytical applicability of Kohli's framework of a fragmented-multiclass state. In addition, particular emphasis is placed on the corrupt state of affairs that came to characterize the Moroccan political economy in the neo-patrimonial phase of the late 1960s.

3.3.1 Agricultural Reform

In the immediate aftermath of independence, the Moroccan agricultural sector had two important characteristics. Firstly, landownership was highly unequal and secondly it was divided into a modernised[188] and traditional part.[189] As Remy Leveau observes, any attempt to tackle these two issues inevitably meant "the monarchy was faced with a dilemma. If it opted for increased productivity, it would risk upsetting existing social structures and undermining its own main source of political support. Yet if it redesigned its structural reform programme in such a way as not to offend the local elites, it would risk driving the rural population overflow into urban shanty-towns, and that would mean a whole new set of problems in the fields of economic development and order".[190]

The Moroccan agricultural sector remained key to the Moroccan economy. In 1960, around seventy percent of the Moroccan population lived in rural areas, and agriculture made-up forty percent of national income. However, despite the prominence of the sector, the average farmer contributed four and half times less to the national economy than those

[188] During the Protectorate period, this part of Morocco was also referred to as *Maroc utile*.
[189] Sluglett and Farouk-Sluglett. "Modern Morocco," 85-86.
[190] Remy Leveau as cited in Abdelali Doumou, "The State and Legitimation in Post-Colonial Morocco," in *The Moroccan State in Historical Perspective (1850-1985)*, ed. Abdelali Doumou (Dakar: Codresia, 1990), 75.

working outside the sector. Indeed, workers in other sectors could expect to earn double the per capita income of their agricultural peers. Within the agricultural sector there were marked differences as well, with a farmer in the traditional part generating, on average, just a sixth of value of those farming with modern methods.[191]

The sector's internal inequities explain the discrepancy between agriculture's important contribution to the national economy and the poor economic return it offered the majority of its workers. Despite a small clique of wealthier landlords whose consolidated holdings and modernized practices allowed them to take advantage of new opportunities, the base of Moroccan agriculture remained the small-holder. Supporting a subsistence economy and lacking the means to organize or modernize, they remained dependent on traditional practices. In addition, the sector supported approximately half a million landless farmers who worked in precarious conditions as *fellah de khemmas*, or share cropper, often on land consolidated by the wealthier landlords.[192]

In 1956, these landlords comprised twelve hundred Moroccans and fifty-nine hundred non-Moroccans owning an average of 170 hectares between them. This was in stark contrast to traditional small-holdings which provided five times the number of farmers engaged in modernized agriculture. At the time, traditional small-holdings supported 1,4 million Moroccan families on 6,5 million hectares, with ninety percent farming on average a plot of under two hectares; whilst 7,900 wealthier landlords exploited 1,3 million hectares.

Thus, whilst the wealthier, modernizing landlords boosted the sector's contribution to overall national income, the base of the sector was caught in a cycle of low productivity based primarily on the production of grains for private consumption and small-scale localized market

[191] William I. Zartman, "Farming and Land Ownership in Morocco," *Land Economics* 39: 2 (1963): 187.
[192] Miller, *History*, 172.

sale. Although the modernized farms also produced grains, these landlords diversified. By increasing returns on grains through improved irrigation, larger landlords diversified into citrus, vegetables and olives, mostly destined for the export market. With government support, sugar beet and cotton were added to modernised farms.[193] The newly independent government was sensitive to the sector's inefficiency as well as potential political fall-out from the inequities generated by agriculture's two-tiered system.

In 1958, Operation Plow was implemented by the more progressive Ibrahim government in order to reduce the productivity gap between the modernised and traditional parts. The ambitious operation sought to boost small-holder production by introducing new farming techniques, improved fertilizers and encouraging mechanization through the provision of tractors. Mohamed V backed the scheme, partly because it provided him with an opportunity to increase support among the rural population.[194]

The scheme ran for five years before it was abandoned. In the first year, 167.000 of hectares benefitted from the scheme. In its second year, cultivated area rose to 290.000 hectares. However, this dropped to just 94.000 hectares in 1961-62.[195] There were several reasons for the disappointing results. From the government perspective it was a costly scheme.[196] Secondly, it increased the indebtedness of farmers given that even though it was a subsidized scheme, farmers still shouldered a part of the cost.[197] Indebtedness became even more problematic following the bad harvests of 1959 and 1960. These years compounded the economic strain the scheme placed on small farmers and led them to blame participation in

[193] IBRD, *The Economic Development of Morocco*, (Baltimore: The John Hopkins Press, 1966), 97-101.
[194] Herman J. van Wersch, "Rural Development in Morocco: 'Opération Labour'," *Economic Development and Cultural Change* 17:1 (1968): 38-39.
[195] André Tiano, *La Politique Économique et Financière du Maroc Indépendant* (Paris: Presses Universitaires de France, 1963), 178.
[196] Doumou, "The State and Legitimation," 73.
[197] Wersch, "Rural Development in Morocco," 44.

the scheme for low yields, rather than adverse weather conditions.[198] Apart from the cost and farmers' declining support, there was another important obstacle for Operation Plow's successful implementation. The rural elite managed to form a coherent pressure group. In 1957, they became unified in the Moroccan Farmers Union (UMA), led by the first Minister of Agriculture after independence.[199] Although linked to the Istiqlal, the UMA also had close palace connections. Given these ties, it tried to avoid, as much as possible, the growing rivalry between the Istiqlal and the palace.[200] However, when they felt their interests threatened, they did launch efforts to change or block policies. The wealthier landowners opposed Operation Plow, fearing it would change the social structure of the rural areas to their detriment.[201]

In 1961, the National Promotion Programme was set up in order to find new ways to deal with rural unemployment. The driving force behind this program was Ahmed Reda Guedira, who combined the positions of Minister of Interior, Agriculture and the Director of the king's cabinet. It consisted of public works employing many of the unemployed in the countryside. The objective was to use unemployed traditional small-holders in reforestation, road building and land-clearing programmes. The labourers were partly paid in-kind using American wheat given as aid in 1961. However, the program did not reach its targets. This was largely due to inadequate planning. In addition, the newly established Superior Council for Rural Advancement did not receive the necessary executive powers and staff. Overruling

[198] Zartman, "Farming and Land Ownership in Morocco," 195.
[199] Ahmed Ben Mansour Nejjai was the first Istiqlal agricultural minister in 1956. The fact that his father was an important caid and that he himself had served up to 1947, as a caid in the French protectorate administration was not an obstacle. He had made the switch in time to the independence movement, becoming of one its main financiers. His family added more land to its domains by acquiring settler land. He owned around 580 hectares on which he grows both grains as well as higher value added crops like citrus fruits, tobacco and vegetables. Some members of the Istiqlal did not look favorably towards these type of landowners, given that many of them were part of the French protectorate administration and had built up their wealth through it. Waterbury, *Commander,* 84, 142, Moore, *Politics in North Africa,* 160, and Zartman, "Farming and Land Ownership in Morocco," 193.
[200] Zartman, "Farming and Land Ownership in Morocco," 193.
[201] Le Coz, J., "L' Opération-Labour au Maroc: Tracteur et Sous-Développement," *Méditerann*ée 2:3 (1961): 30, and Doumou, "The State and Legitimation," 73.

powers were needed to deal with poor coordination between various ministries and services involved in the program.[202] Although it did not increase productivity in a meaningful way, politically it was a success. Implementation of the program and the distribution of the wheat took place via the governors, the army and the rural *caids*. This provided an additional tool of control over the rural population. The ties between the monarchy, local rulers and notables were thereby strengthened.[203]

Another issue in which the power of the landowning elite became apparent was land redistribution. No serious land redistribution took place before the attempted military coup of 1971. But what did take place, was the buying of land owned by French settlers, a process that started prior to independence. Between 1956 and 1965 approximately half a million hectares of former settler land was sold to the well-connected, either members of the royal family, rural notables or government administrators. Sometimes the state acquired settler land before selling it on to connected individuals on favourable terms. This contravened the original purpose of state acquisition of settler-land, which was meant to be redistributed to poor farmers. In the end only the top 15-20 percent of rural households profited from land redistribution.[204] Indeed, over the period 1956 - 1972, just 11.518 individuals benefited from a total of 185.229 redistributed hectares. Two thirds of land redistribution between 1956-72 took place in the coup-years of 1971 and 1972.[205] Just one percent of these beneficiaries owned under two hectares prior to the purchase of additional redistribution of land.[206] These figures illustrate the political calculations made by decision-makers when designing land redistribution schemes. Ultimately their real goal was less to alleviate poverty and rebalance inequities within the sector than to shore-up political support for the monarchy, especially in

[202] Douglas Ashford, *Morocco-Tunisia: Politics and Planning* (Syracuse: Syracuse University Press, 1965), 232-233.
[203] Moore, *Politics*, 257.
[204] Sluglett and Farouk-Sluglett, "Modern Morocco," 84.
[205] Doumou, "The State and Legitimation," 77.
[206] Sluglett and Farouk-Sluglett, "Modern Morocco," 84.

the wake of the two coup attempts of 1971 and 1972. Beyond reaffirming the support of the rural notables' for the monarchy, the land sales were used to encourage the loyalty of government administrators. The disproportionate nature of the land redistribution policy was compounded by Hassan II's 1961 revocation of the land tax (*tertib*); a move which merely consolidated the advantages of the rural elite further.[207]

In addition to land redistribution and Operation Plow, the state invested in public works in the agricultural sector. The investments were aimed at increasing productivity. However, yet again it was the modern section of the agricultural sector, and especially large agro-businesses, which benefited most from the state's massive investments in irrigation works and the construction of dams. In addition, large landowners received easy access to credit. The main consequence was the promotion of cash crops, such as citrus fruits and vegetables aimed for the export market, over grains, the staple of daily consumption and destined for the less lucrative domestic market. Basic food products, grown mainly in rain-fed areas, where a majority of farmers lived, were neglected.[208] Despite the Moroccan government's awareness of the failings of the sector's two-tiered system and its fears of the potential socio-political fall-out, ultimately short-term political interests swayed the manner in which reforms were implemented. Ironically, the outcome of post-independence agricultural policy ended up looking very similar to protectorate practices, especially in the way large landlords consolidated their positions and ensured policies favouring their interests were adopted.[209]

The failure of the policy measures described above to develop the countryside are typical of fragmented-multiclass states. Though initially conceived to address real problems,

[207] Ashford, *Morocco-Tunisia,* 49.
[208] Sluglett and Farouk-Sluglett, "Modern Morocco," 86.
[209] Will D. Swearingen, *Moroccan Mirages: Agrarian Dreams and Deceptions,1912-1986* (Princeton: Princeton University Press, 1987), 164.

contradicting interests collided in its implementation. Intermediaries were needed to reach the farmers. These were often rural notables who occupied local administrative positions or had access to local authorities. Successful implementation depended largely on the notables' cooperation. However, the plan coming from Rabat risked seriously undermining their own local interests. Though the states' effort to reform the sector and develop the countryside largely failed, it had important political gains. The need to secure elite interests in the countryside drew in local government officials and led to a re-centralization of the patronage system towards the state. Thanks to this, the monarchy was able to reinforce the loyalty of its cadres in the provinces as well as strengthen its support-base among the rural elite.

Returning to the "dilemma quote" by Leveau, the choice between upsetting the existing rural social structures, or risking migration to the cities, was resolved in favour of maintaining the social status-quo in rural areas. The failure of Operation Plow and the lack of equitable land redistribution had adverse consequences for Morocco's many small-holders, squeezing them further and undermining any prospect for real socio-economic development. Though the farms of the modernized elite flourished, the growing rural population could no longer be absorbed by the lagging sector. Migration was the inevitable result. Unsuccessful small-holders and the rural unemployed left to try their luck in the cities or meet the demand for low-skilled labour in post-war Europe. Whether the industrialization policies which underwrote the development of urban Morocco succeeded in absorbing the new workers is the subject of the next section.

3.3.2 Industrial Development

Though Morocco was politically unstable in the first few years following independence, important decisions were made to promote industrialization. The Moroccan state embarked on several major planning exercises in the period between independence and the first military

coup of 1971. A closer analysis of these plans reveals important aspects regarding the type of state-business relations as well as their impact on development more generally. The contents of these plans reveal the extent different segments of society were co-opted into the king's support-base. Besides its content, the planning *process* is illustrative of both politics and policymaking's fragmented nature. Essentially, Morocco's industrialization plans aimed to modernize agriculture, discussed above, and establish a mixed industrial economy, where private-sector participation would complement public investments.

In order to discuss the plans it is necessary to outline key, post-independence trade policies and investment laws which affected both the implementation and outcome of Morocco's ambitious industrialization plans. Intended to create a protective environment for the private sector in 1957, the government removed the trade system which had been in place since the Treaty of Algeciras of 1906. The uniform tariff was replaced with a differentiated system. This meant that low or no tariffs were raised on needed investment goods and raw materials, whilst high tariffs were imposed on goods produced by Moroccan industry. In later years, quantitative restrictions or even outright bans were introduced. Sometimes these bans were temporary measures instituted to deal with balance of payment deficits. Additionally, an investment law was passed in 1958, with further modifications made in 1960. This new law provided different exemptions from tax and custom duties and guaranteed foreigners transfers of invested capital.[210] These trade and investment laws laid the basis for Morocco's import substitution policy. Although economically Morocco maintained a relatively open, liberal outlook, selective measures increasingly protected certain segments of the nascent industrial sector. Later in the section, I argue that this gave rise to a particular type of state-business relations in Morocco.

[210] IBRD, *The Economic Development of Morocco*, 178-179.

Having gained independence, Morocco faced the challenge of maintaining economic and financial stability. The urgency of this task was made clear by the steady outflow of capital, mostly by former French settlers.[211] In order to effectively manage the economy, a new Ministry of National Economy and Finance was created in late 1956. Within this ministry, a division was established to collect data, coordinate research and oversee the drafting and execution of economic development plans. This Division of Economic Coordination and Planning (DCEP) also served as a secretariat for the Superior Planning Council (SPC). The SPC was created in 1957 and listed as members almost all those concerned with economic development in Morocco. Among its 24 members were not only various ministers, but also members representing special interests, such as unions, private business and sections of the agricultural sector.[212] This inclusive process of having all the relevant stakeholders present in different committees remained an important and sometimes cumbersome institutional feature of Moroccan policymaking.

The SPC proved ineffective. This was partly a consequence of the many, often contradictory interests within it. Illustrated by the fact that the fifteen commissions tasked with drawing plans for the various subsections of the economy, were each captured by specific vested interests and were unable to finalise their tasks. Despite the overly-centralized and underperforming new institutions, important achievements were made in the first four years of independence. The driving force behind the setting up of these planning institutions and the effort to make them work, were leading figures within the progressive wing of the Istiqlal; Mehdi Ben Barka, Abderrahim Bouabid and Abdallah Ibrahim, all of whom would later become part of the UNFP leadership.[213]

[211] Sluglett and Farouk-Sluglett, "Modern Morocco," 83.
[212] Albert Waterston, *Planning in Morocco: Organization and Implementation* (Baltimore: Johns Hopkins Press, 1962), 13-15.
[213] Ashford, *Morocco-Tunisia*, 14-16.

Even though trade unions and the business federation criticized the first Biennial Investment Plan approved by the SPC, the government still went ahead with it in 1958.[214] The Biennial Investment Plan for 1958-59 aimed at increasing agricultural and industrial production. In addition, the education and training of Moroccan workers was made a priority in order to counter the effects of the outflow of French personnel. Investments were budgeted at $ 230 million, of which 65% would be financed by foreign loans. The majority of these investments were intended for the agricultural sector, which included Operation Plow, discussed above. Overall, agriculture and irrigation counted for 35% of the proposed investment whilst energy, industry and trade were allocated a mere 6.5%. In addition, 31,6% went to housing, social services, education and culture[215]. As we have seen, Operation Plow did not meet its ambitious objectives. Partly as a result of this, the Biennial Investment Plan also failed to meet its stated investment targets.[216] The allocation of the investment budget shows that despite being an industrialization plan, priority was given to rural areas over industrial development in urban areas.

Despite the shortcomings of the 1958-59 Biennial Investment Plan's implementation, these were still the years in which important state institutions were set up. Chief among these was the establishment of a central bank, *Bank Al-Maghrib* (BAM) and a commercial exchange bank, *Banque Marocaine du Commerce Extérieure* (BMCE) in 1959.[217] In order to prepare studies and projects, raise necessary financing and participate in industrial ventures, a new institution, *Bureau d'Etudes et Participations Industrielles* (BEPI), was created towards the end of 1957. As an example of its function, BEPI was instrumental in setting up light car factories within Morocco in cooperation with Italian Fiat and French *Simca*. Together they formed a joint-venture, the *Société Marocaine de Constructions Automobiles* (SOMACA). BEPI was also

[214] Waterston, *Planning in Morocco*,18.
[215] The remainder was allocated to transport communication and administration.
[216] Waterston, *Planning in Morocco*, 18-20 and 56.
[217] Ashford, *Morocco-Tunisia*, 15.

part of a joint-venture with French *Berliet* to set up a truck and bus assembly line. Another important institution was the *Banque National pour le Développement Economique* (BNDE), established in 1959. The government contributed 56% of its capital with the remainder coming from foreign donors and financial institutions. BNDE's mission was to participate in private industrial enterprises; provide long and medium term loans as well as subsidies on commercial loans. During the first five years of its existence, BNDE generated a third of all investments in private industry.[218] In 1959, a more sector-focused institution was established, the *Société d'Etudes et de Coordination Industrielle Marocaine* (SECIM). It targeted development in the metallurgical and mechanical industries.[219] The last institution that needs mentioning is the *Caisse de Dépôt et de Gestion* (CDG). It was created in 1959 as a public financial institution. CDG was tasked to manage long-term savings, mainly coming from social security and pension funds. It operated independently from the Ministry of Finance and its director was and continues to be appointed by royal decree.[220]

The 1958-59 Biennial Investment Plan was meant as a prelude to a more ambitious Five Year Plan for 1960-64. Though the plan was never implemented, it is still important to consider the processes it proposed as well as the general orientations of the plan. As discussed, the planning process involved both the SPC and its secretariat, the DCEP. However, organizationally the DCEP was part of the "super-ministry" of National Economy and Finance. This Ministry held responsibility for industry, mining and, for a brief period, even agriculture. The minister of National Economy and Finance simultaneously held the vice-chairmanship of the SPC. Staffed by competent civil servants enhanced the standing of this ministry in relation to other ministries and government agencies. The broad range of responsibilities made this

[218] IBRD, *The Economic Development of Morocco*, 182-184, 189.
[219] Waterston, *Planning in Morocco*, 21.
[220] Tiano, *La Politique Économique et Financière du Maroc Indépendant,* 250-51.

particular minister powerful among his colleagues.[221] However, these many responsibilities, made devoting time to the planning exercise taking place within DCEP difficult. This contributed to the slow progress of the Five-Year Plan's drafting process. Furthermore, the DCEP was thinly staffed and too low a priority in the administrative hierarchy to effectively speed-up the process or coordinate the various reports coming from sub-commissions. Continuously changing directors compounded the problem.[222]

Another explanation for the delay is found in the way the sub-commissions of the SPC functioned. The SPC was tasked with providing input to the DCEP. Because they represented different interests, from both the public and the private sector, discussions were often lengthy, with few concrete results. Yet, it was a deliberate choice not to hand over planning to technicians. Minister Bouabid succinctly outlined this inclusive but cumbersome process: "we have chosen this formula… to obtain the knowledge and the counsel of everyone and to permit different views to be expressed and compared….because we believe in the virtues of discussion."[223]

But it was political developments within the Istiqlal and between the Istiqlal, the UNFP and the palace which most affected the planning process's efficiency. Drafting took place in the turbulent first years of independence. When Mohamed V appointed himself prime minister in 1960, he nominated Mohamed Diouri from the Istiqlal party as the new economy minister. The appointment of Diouri, known to be part of the conservative wing of the independence movement, directly led to the departure of a number of dedicated staff within DCEP and the "super ministry". Those who resigned identified more with the deposed minister Bouabid, a progressive modernizer. In 1960, the SPC was affected also by significant changes in

[221] Waterston, *Planning in Morocco*, 23.
[222] Ibid., 27 and 47.
[223] Cited in Albert Waterston, *Planning in Morocco*, 25.

government. These changes led to discussions that focused less on development and more on the orientation of Moroccan politics. The SPC provided the only platform where such a discussion could take place. Paradoxically, it was able to do this precisely because it encouraged inclusive dialogue and represented varied, often contradictory interests. In this way we see how elements which constituted its main weaknesses, contributing significantly to the failure of its planning dialogues, enabled the SPC to provide a key platform for inclusive national dialogue far beyond its original development mandate. However, as valuable as this political contribution may have been, the foray into politics turned the SPC into a political platform for the various interest groups within it and undermined the sub-commission's initial mandate of socio-economic development planning.

In the summer of 1960, the Plan's delayed presentation took place. The SPC and its sub-commissions ceased to have an important role in policymaking in the years thereafter.[224] At the meeting of the SPC in August 1960, then Crown Prince Hassan proposed to divide the five year period into two. This could be interpreted as a vote of no-confidence in the Plan.[225] During the same meeting, the Plan was criticized by worker-representatives, business interests and large landowners. To complicate matters further, the Crown Prince demanded the inclusion of an arms industry and foreign finance sources, neither of which were in the original draft.[226]

Despite the inconclusive debate at the meeting of the SPC, the plan was approved into law by the monarch. The objectives of the Plan were to promote agricultural reform, foster industrial development and increase human capital. It envisaged a total investment of $ 1,7 billion. Agriculture was to receive 31,2% of this amount, while industry was allocated 28,4% of

[224] Waterston, *Planning in Morocco*, 27 and 37.
[225] Ibid., 31.
[226] Ashford, *Morocco-Tunisia*, 17.

the funds. A fifth of the budget was set aside for urban and rural development.[227] Though agriculture remained a priority, the plan can be seen as the government's attempt to diversify the economy into more heavy industry like chemicals and basic steel.

Unfortunately, the Plan was never tested in practice. Partly this was the result of ill-prepared investment projects. It was also hampered by lack of data and competent staff. The DCEP faced stiff opposition not only from rival divisions within its own ministry and from other ministries, but also from the private sector. In addition, coordination between ministries failed entirely. In order to get around the problem of non-cooperation, recourse was sought in the establishment of semi-autonomous agencies, their semi-autonomy merely bringing with it new coordination issues.[228] Their autonomy often put them out of reach of political organs.

As Hassan II increasingly centralized state power in the institution of the monarchy, development and planning became even more erratic. Indeed, after 1963, the Istiqlal and the UNFP were not even part of the government. An important consequence of their ostracism was an increasingly personalised planning process based more on the wishes of the palace and those close to it, than on inclusive development plans which enjoyed broad political support. The way the second 1960-64 plan was set-up and swiftly replaced by a Three -Year plan clearly illustrates the strengthening neo-patrimonial thrust of governance during the 1960s.

After 1963, all pretence of input from political parties in the planning and implementation processes ended. As Istiqlal Minister Diouri explained, part of the motivation behind Istiqlal's break with the palace lay in Hassan II's hesitation over long-term development

[227] Waterston, *Planning in Morocco,* 28 and 63.
[228] Ibid., 30-41.

planning. From 1963 onwards, Hassan II relied on a close confidant, Mohamed Laghzaoui[229], to assess and coordinate projects. Thus, development policy and its execution became more personalized rather than institutionalized.[230] Due to economic problems in the mid-1960s, a new, more conservative, plan was initiated for 1965-67. Balance of payments and budget deficits coupled with slow growth called for a less ambitious investment programme for the industrial sector. Significantly, this new plan also called for a more cautious approach to agrarian reform. The agricultural sector received priority over the industrial sector in the subsequent 1968-72 plan.[231]

Shifting development priorities, a proliferation of state institutions, and changes in governments are illustrative of a fragmented policymaking process.[232] This unpredictability led to uncertainty among private investors, both Moroccan and foreign. The outcome was lagging private investment. Private investors took a cautious approach, unwilling to commit to long-term investments in what they perceived to be a politically volatile environment. Inevitably, the private sector which emerged in this environment relied heavily on the state[233]. Investments which did take place were made in protected sectors of the economy, such as textiles. In addition, risks were spread by entering into joint-ventures with special state

[229] Laghzaoui's political trajectory is indicative of the changed style of economic governance under Hassan II. Laghzaoui's fortunes were amassed in the transport sector during the protectorate period. He was an important financial sponsor of the Istiqlal prior to independence. After independence, he became the first director of policy and security under Mohamed V. He later became director of the important phosphate company. In 1963, the role of coordinating the efforts of BEPI and the mining bureau were added to his directorship of the phosphate company. At the same time he was an important figure within Guedira's FDIC. He eventually became minister of Industry, Mining, Tourism and handicrafts before resigning for health reasons in 1965. Clement and Paul, *Morocco's bourgeoisie,* 13-14 and Waterbury, *Commander*, 84, 211 and 263.

[230] Ashford, *Morocco-Tunisia*, 34.

[231] Driss Ben Ali, "L'Economie Marocaine au Fils du Temps," in *L'Industrie Marocaine a l'epreuve d'ajustement,* ed. Driss Ben Ali and Kazuo Miyaji (Tokyo: Institute of Developing Economies, 1990), 17-22.

[232] In the case of BEPI, there was the additional problem of changes of directors, with four holding the position in just five years. IBRD, *The Economic Development of Morocco*, 191.

[233] Because of the growing dominance of state enterprises and financial institutions, many of the commercial elite managed to acquire important positions within the public sector. They were needed for their expertise. At the same time, it provided the commercial elite with access to important sources of finance and information. Waterbury, *Commander,* 106.

financial institutions like the BNDE. Despite government incentives to promote private investment, private investors tended to prefer simple, short-term investments in sectors which provided high rates of returns. Typically, these investments were made in the commercial and real estate sectors of the economy.[234] In a sense, this mode of operation is not much different from that of the merchants under the sultans rule in pre-protectorate Morocco. Furthermore, Moroccan investors were hesitant to enter into partnership with state enterprises where, in terms of invested capital and influence, they inevitably found themselves the junior partner. This hesitation also stemmed from the unease the Moroccan private sector felt in relation to the growing public sector. The arbitrary nature in which regulations were made and implemented made the private sector suspicious of the expanding state. Smaller investments, in which the investors had more control was the preferred territory of Morocco's nascent private sector.[235] This preference became mirrored in the way many large companies were structured and remains obvious even today. Primarily composed of family-owned holdings, this disinclines them from entering into large scale investments and growing into publicly-traded shareholding companies.[236]

3.4 Conclusion

The state-building period is key to understand the type of state-business relations which emerged post-independence. It is the origin of the type of state which helps explain why a particular state-business configuration took form. The formation of ruling coalitions coincided with the first development efforts of post-independence governments. This timing affected development planning and implementation as well as the type of state-business relations in Morocco.

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[234] Jean-Francois Clement and James Paul, "Morocco's Bourgeoisie: Monarchy, State and Owning Class," *Middle East Research and Information Project,* 142 (1986): 15.
[235] IBRD, *The Current Economic Position and Prospects of Morocco,* vol.1 (Washington, 1967), Annex C, 2-3.
[236] IBRD, *Economic Developments and Prospects in Morocco* (Washington, 1970), 35.

The different ways political forces related to and interacted with the monarchy consolidated over the first decade and a half after independence. The tension these relations generated continue to determine the character of the Moroccan state today as well as influence state-business relations. The way in which political forces interacted with the monarchy as well as the compromises and outcomes these interactions entailed suggest the categorization of the Moroccan state as a fragmented-multiclass state.

I argue that Morocco in the immediate post-independence period of state-building was illustrative of a fragmented-multiclass state. Alliance-seeking compounded the absence of strong and vertically-structured power institutions and meant that state authority remained weak. Economic policies were implemented by parts of the elite as a way of strengthening their powerbase rather than stimulating economic development. When political imperatives changed, so did reform plans. On the other hand, by the latter half of the 1960s, neo-patrimonial attitudes emerge more strongly and become a key tool of Hassan II's governance strategy. Indeed Hassan II's patronage network revolved closely around his person and was structured in a way that encouraged endemic corruption. However, this strategy critically narrowed his power base pushing him into a heavy reliance on the army.

The close relationship between emerging business groups and state institutions was part of the patronage network that became dominant in the Moroccan economy in the late 1960s. It was in this decade that the king ensured political parties were excluded from potential sources of patronage. The relational system Hassan II supported made entrepreneurs almost entirely dependent on the whims of the monarch. An overly-successful entrepreneur could find himself the arbitrary target of the tax office or fail to acquire necessary permits. This

possibility made entrepreneurs less eager to engage in long-term investments.[237] Corruption was not a by-product of this patronage system, rather in a context of fragmented political systems, a patronage system concentrated on the monarch was developed as an effective tool for regime survival. Intense competition for administrative access, state resources and favours inhibited long-term development planning.[238] The level of corruption and the accompanying exclusion led to feeling of resentments of important sections of society. Paradoxically Hassan II failed to assess the delicate balance such a system requires. The officers behind the two coup attempts of 1971 and 1972 cited extensive corruption as a motivation for wanting to rid the country of the king.[239]

[237] John Waterbury, "Endemic and Planned Corruption in a Monarchical Regime," *World Politics,* 25:4 (1973): 546.
[238] Ibid., 555.
[239] Ibid., 554.

4. State expansion, crisis and adjustment

4.1 Introduction

The social unrest of the 1960s and the two military coups of 1971 and 1972 were a stark reminder to the monarchy of the dire political and socio-economic conditions in Morocco. To ensure the survival of his rule, King Hassan II had to address both the political and economic challenges facing the country. The policies that were adopted in the 1970s had lasting implications for state-business relations. Firstly, Hassan II initiated the Moroccanization policy in 1973. This policy entailed a nationalization of colonial land and enterprises. In addition, the state expanded its influence in the economic field, mostly through an import-substitution strategy. Taken together, these steps led to a reconfiguration of the relationship between the private sector and the state. I will argue that state expansion and the Moroccanization policy of the 1970s broadened the support-base of the monarchy, in both the rural and urban areas. Consequently, the close relationship which emerged between the state and the private sector in the 1970s was embedded within the monarchy's wider support structure. The monarchy's reliance on different groups in society, meant that it was able to avoid the state apparatus being captured exclusively by private sector interests. On the other hand, it also enabled the monarchy to use state resources to make the private sector increasingly dependent on, and integrated into the expanding patronage system.

This chapter describes the mechanisms and policies through which the monarchy enlarged its support-base, both politically and economically. It deals with the boom and bust decade between 1972 and 1983, the year Morocco finally turned to the International Monetary Fund (IMF) and World Bank for a structural adjustment programme. The second part is devoted to the precarious balancing act of the 1980s, the decade during which this

adjustment programme was implemented. It ends with a discussion of the rise of business groups and the outcomes for state-business relations more specifically.

4.2 Rebuilding a Political Base and the Moroccanization of the Economy

Having survived the attempted coups of 1971 and 1972, King Hassan II needed to find new ways to rebuild ties with political factions. The army was cleansed of coup suspects, including high level generals like Oufkir. From 1973 onwards until the kings' death in 1999, security matters were put in the hands of Driss el Basri, the new security chief. Rebuilding ties with the political parties proved to be challenging. A new constitution was drawn up in 1972 and even though power remained firmly in the hands of the monarch, more room was made for parliament and multiparty activity. Despite this opening, the opposition boycotted the referendum on the new constitution, fearing a fraudulent voting-process. As the opposition suspected, the constitution was approved by an overwhelming majority.[240] Subsequent discussions with opposition parties did not lead to a breakthrough. In 1973, more repression followed after another plot against the monarchy was thwarted. Despite the new constitution and the attempts to open a dialogue between the monarchy and the opposition parties, persecution, especially of the left and the emerging violent Islamist groups continued in the early 1970s. This reinforced the political isolation of the monarchy. The repression also led to a split in the UNFP.[241]

In order to rally political factions, Hassan II used the Spanish Sahara as a mobilization tool.[242] The departure of the Spanish in 1975 from the territory on the north-west coast of Africa, which the Spanish had assumed colonial control over at the end of the nineteenth

[240] Lise Storm, *Democratization in Morocco: The Political Elite and Struggles for Power in the Post-independence State* (New York: Routledge, 2007), 31.
[241] The Rabat branch of the UNFP renamed itself the USFP. Because it accepted to work within the political system defined by the king and because of its nationalist stance regarding the Western Sahara, it became more attractive for cadres as a party. It soon eclipsed the UNFP as a party in terms of popularity. Mednicoff, "Morocco's Political Parties," 412-413 : Mednicoff, "Morocco's Political Parties," 388-389
[242] Richard Pennell, *Morocco since 1830: a History* (London: C. Hurst & Co., 2000), 332-333.

century, was seized upon by King Hassan II to reclaim the territory as Moroccan territory. The Green March into what became known as the Western Sahara was a successful nationalist instrument in reviving ties between the monarchy, the general population and more importantly, the Istiqlal, the USFP (Socialist Union of Popular Forces), and the newly formed former communist party, the PPS (Parti du Progrès et du Socialisme)[243]. However, these victories in rallying the population and political factions behind a nationalist cause came at a price. The Polisario, a movement claiming self-determination and supported by Algeria among others, proved to be a capable guerrilla force from 1976 onwards. The resulting war[244] led to mounting military and civilian deaths. It was also a major burden on state finances.[245] These costs were not confined to military expenditures alone. Morocco extended social service provision to the new southern territories it had established control over, leading to uneven expenditures, with proportionally six times more being spent on the south than in the rest of the country.[246]

As Hassan II felt his position strengthened, due to the initial surge in popularity following the Green March, the king allowed more party activity. In 1976, he even went so far as in appointing a cabinet filled with ministers from a variety of parties. Even the Istiqlal joined the government after the elections of 1977. However, the creation of a new party by the king's brother in law, Ahmed Osman, increased the fragmentation of political factions. This party, the National Rally of Independents (RNI), was created in 1977. In a sense, it resembled the FDIC, in

[243] The PPS emerged from the Moroccan Communist Party, which was banned in 1960. With the same communist line and leadership, it gained a place among the other parties. This was largely thanks to its willingness not to oppose the monarchy and the Western Sahara policy. The small support-base among students and teachers, and the charisma and respect for its leader, Ali Yata, were probably the main reasons why the communists were allowed to reenter formal politics. Mednicoff, "Morocco's Political Parties," 416-417.
[244] Stalemate was reached on the ground after the Moroccans built a fortified wall along the Algerian border. A UN-backed cease-fire was declared in 1989, but the planned referendum for the Sahrawi people on independence or Moroccan rule, never took place. Miller, *History,* 183.
[245] Pennell, *Morocco since 1830*, 339-340.
[246] Miller, *History,* 184.

that it seemed to have royal blessing and was set up to rally independent pro-royalists.[247] Increased political activity did not mean that repression was not used anymore against political parties. The political climate deteriorated especially for the leftist opposition in the early 1980s. The leftist opposition and the unions faced repression, especially after riots occurred in 1981 (see next section on the socio-economic roots of these riots).

A new effort to rally pro-monarch independents and emerging younger groups in society, mostly the new economic middle class, took place in 1983. The *Union Constitutionnelle* (UC) was formed and won the subsequent municipal elections in 1983. This was largely achieved by changing districts favouring rural voters against urban voters. Despite the setback and the wide accusations of fraud during the municipal elections, the USFP and the Istiqlal did participate in a unity government in preparation of the 1984 parliamentary elections. This national unity government, under the leadership of Karim Lamrani, was formed in the fall of 1983, just a few months after the structural adjustment programme measures were approved in parliament. The parliamentary elections of 1984 were won by pro-monarchist parties, the UC, RNI and the MP.[248] This was the moment the USFP and the Istiqlal decided that opposition was a better strategy than the disappointing game of co-option followed by fraudulent elections and the sudden formation of pro-monarchy parties. They would stay out of government until the end of the 1990s.

The political opening in the 1970s and the continuous attempts to rally political forces in the 1980s coincided with an important episode in Morocco's economic development. These were the years of state expansion and more importantly of Moroccanization. The nationalization policy was an attempt to build new ties between the monarchy and emerging groups in society, similar to what happened in the political sphere through the formation of

[247] Mednicoff, "Morocco's Political Parties," 390-391.
[248] Storm, *Democratization in Morocco,* 47-49.

parties like the UC and the RNI. Moroccanization entailed the transfer of colonial land to Moroccan nationals and the requirement that 50% of every enterprise be in Moroccan hands. The Moroccan elite families with close ties to the monarchy, like the Alawi, Wazzani, Kettani, Lamrani, Alami, Idrissi, benefited greatly from these policies. These laws had a profound impact on the political economy landscape of Morocco, even though foreign participation was not reduced significantly.[249] The end result was however, that it "allowed the preexisting economic elite to cement its holdings and integrated the upper-level government bureaucracy, particularly ministers, high government officials, and heads of parastatals, into the ranks of the economically privileged."[250] The private sector was thus split between powerful business groups, controlled by a few families with links to foreign capital and the state (government, bureaucracy and the palace) and a large section of smaller less-connected enterprises.

Moroccanization of land was a critical tool to draw support from landowners. Following the failed military coups, 91,000 hectares was redistributed in 1972. This was equal to what was redistributed between 1956 and 1971. A further 400,000 hectares of land was redistributed between 1973 and 1977.[251] But little was achieved in the 1970s in terms of landownership inequality. By 1977, inequality in landownership was reflected by the fact that 56,5% of farmers owned less than 5 hectares, while 0.5% owned more than 50-100 hectares. Collectively, this 0.5% group of large landowners owned 17% of Moroccan agricultural land, against 23,4% of farmers owning no land at all.[252]

[249] Alain, Claisse, "Makhzen Traditions and Administrative Channels," in *The Political Economy of Morocco,* ed. I. William Zartman (New York: Praeger), 51.
[250] Cammett, *Globalization and Business*, 96.
[251] Jean-Paul Azam and Christian Morrisson, "Morocco," in *The Political Feasibility of Adjustment in Côte d'Ivoire and Morocco,* ed. Jean-Paul Azam and Christian Morrisson (Paris: OECD, 1994), 87.
[252] Anne Findlay, "The Moroccan Economy in the 1970s," in *North Africa: Contemporary Politics and Economic Development*, ed. Richard Lawless and Allan Findlay (New York: St. Martin's, 1984), 197-199.

Thus in the early 1970s the monarchy managed to slowly rebuild ties with important political and economic forces. The narrowing of the monarchy's support-base in the latter half of the 1960s turned Morocco into more of a neo-patrimonial state as defined by Kohli. The two attempts at military takeover led to a gradual change back to a fragmented-multiclass state. Power was still vertically structured and in the hands of the monarch and his direct entourage. Yet, there was more willingness to draw in different groups in society. The Moroccanziation policy ensured the co-option of important segments of the business elite, the army, landowners and the new administrative elite. In order to further ensure stability, the monarchy focused on economic policies. The intended effect was to improve the socio-economic conditions of larger parts of society, mostly for the increasing urban masses.

4.3 Economic Policies between 1970-1983

By the 1970s, it was clear that the socio-economic policies of the 1960s led to a rise in inequality. In 1960, consumption per capita in urban areas was 1.7 times higher than in rural areas. By 1971, this had risen to twice as high in urban areas as compared to rural areas. Similarly, the top 10% of the population consumed 25% of total consumption in 1960, against just 3.3% for the poorest 10%. By 1971, the poorest 10% consumed a mere 1,2% of total consumption, while the richest 10% saw their consumption level rise to 37% of total consumption. These deteriorating ratios were just one indication of the widening wealth gap. Food prices saw an annual increase of 11,1%, well above wage increases, while agricultural reform led to more landless peasants.[253] In addition, rapid population growth, especially in the cities, required the creation of jobs. These jobs could come from two sources, either the public sector or the private sector.

[253] Findlay, "The Moroccan Economy in the 1970s," 193.

In the early 1970s, the government opted for a protectionist import-substitution strategy and state expansion. The protectionist trade regime was a reversal of the policy followed since 1967. Between 1967 and 1972, Morocco liberalized the trade regime, increasing the share of products which could be freely imported from 39% of total imports to 73%. The new strategy in the 1970s meant that by 1981, the value of freely imported goods relative to total imported goods fell back to 42%.[254] The protectionist policy was to the benefit of the emerging commercial and industrial sector which was focused on the domestic market. The support provided through state development banks since the early 1960s was now increasingly coupled with protection against foreign competition.

However, an import-substitution strategy prevented the emergence of an export-led industrial growth strategy focused on labour-intensive products which could have generated the low-skilled employment needed. Such an export-led strategy could probably have increased job supply to a greater extent than the import-substitution strategy. A small domestic market with weak purchasing power limited the development of a sizeable industry. The only other option left for the state was to increase jobs by expanding the public sector. Before 1976, much of the growth in the public sector was financed through the increased revenues from phosphates. While after 1976, foreign borrowing became the source to finance the growth of the public sector. Even when faced with mounting foreign debt in the late 1970s, public sector employment still grew by 40% between 1978 and 1983. This meant that against the background of growing budgetary constraints, the state favoured such expansion over the politically more difficult trajectory of stabilization and structural adjustment. Whatever the wisdom of this strategy in the long run, it was imperative to preserve social peace in the urban areas and it did mean that in the decade between 1971 and 1982, the state succeeded in keeping job supply almost in pace with demographic growth. Indeed, employment increased

[254] Christian Morrisson, *Adjustment and Equity in Morocco* (Paris: OECD, 1991), 23.

by 38,2% while, the working population increased by 42,2%.[255] This expansion of the public sector was initially only possible, because of the phosphate price rises in the 1970s.

Thanks to Morocco being the third largest producer of phosphate, it experienced unexpected revenues from phosphate exports in the mid-1970s. State coffers were suddenly filled with revenues coming from the state-owned national phosphate company OCP.[256] Phosphate prices went from $14 per ton in 1973 to $68 per ton in 1975. This provided the opportunity to build large industrial chemical processing plants in the 1970s and early 1980s. When phosphate prices rose, Morocco's export revenues increased substantially, given that phosphate exports made up 35-40% of total export. Export revenues from phosphates went up from 571 million Moroccan Dirhams (DH) in 1970, to 4 billion DH in 1974.[257] Another source of external revenues for Morocco was remittances. Emigration was increasingly promoted in order to alleviate pressure on the domestic labour market. This led to considerable revenues in terms of remittances, rising from 316 million DH in 1970 to 3,7 billion DH in 1979.[258] In 1974, the foreign exchange that came in the form of remittances covered approximately 18% of import costs.[259]

These new sources of revenue allowed the state to increase its investments in the economy. Government expenditures as a share of GDP doubled between 1973 and 1977.[260] The state became the major engine behind the investment drive. Public investment as a share of total investment rose from an average of 36% in the years 1971-73 to 54% in the period

[255] Azam and Morrisson, "Morocco," 91.
[256] Guilain P. Denoeux and Abdeslam Maghraoui, "The Political Economy of Structural Adjustment in Morocco," in *Economic Crisis and Political Change in North Africa,* ed. Azzedine Layachi (Westport: Praeger Publishers, 1998), 56.
[257] Findlay, "The Moroccan Economy in the 1970s," 201-203.
[258] Ibid., 211.
[259] Pennell, *Morocco since 1830*, 328.
[260] Denoeux and Maghraoui, "The Political Economy," 56.

1974-1980.[261] Investment rates reached 30% in the 1970s, against a mere 12% in the 1960s.[262] The state increased its share in different sectors. State-controlled banks and holding companies expanded and 215 new public firms were created.[263] In addition, the state used its increased export revenues from phosphates to pay for a 26% increase in civil servant salaries and to subsidise daily food products.[264] For example, sugar-related subsidies reached 2,8% of GDP in 1975.[265] Overall, subsidies on food reached 24% of government expenditures in 1974. This was a significant change from the 3,7% of the year before.[266]

The Moroccanization policy and the growth of the public sector inevitably meant that the private sector depended largely on the state. This dependency came in several forms. Firstly, the investment boom was largely the result of an increase in construction. The construction sector benefited greatly from public procurement contracts. But the unpredictable nature of phosphate prices meant that many construction projects were vulnerable to delays or cancellation. Secondly, many business ventures were dependent on state banks for credits. In addition, an import-substitution strategy meant an increase in regulation, licences and possible exemptions from these very same rules. The burgeoning bureaucracy led to a stronger position of the state vis-à-vis the private sector, especially the formal part of the private sector. Many had to rely on networks and rent-seeking activities in order to remain profitable. Thirdly, the precarious situation of state finances meant that the possibility of increased taxation became more real. The end result was a private sector which consisted of a top layer in which wealth was highly concentrated and which was politically connected. The regime was thus becoming increasingly reliant on different groups in society.

[261] Morrisson, *Adjustment and Equity,* 32-33.
[262] Azam and Morrisson, "Morocco," 87.
[263] Denoeux and Maghraoui, "The Political Economy," 56.
[264] Morrisson, *Adjustment and Equity*, 32.
[265] Brendan Horton, *Morocco: Analysis and Reform of Economic Policy* (Washington: The World Bank, 1990), 17.
[266] Azam and Morrisson, "Morocco," 89.

These groups did not always have the same interests as the business interests. This became clear in the failed stabilization efforts at the end of the 1970s and the subsequent adjustment programme in the early 1980s. As such, it posed major challenges when devising policies to deal with the debt problem.

When in 1976 the phosphate price fell in real terms back to their 1973 levels, the state did not cut back its expenditures accordingly. This boom and subsequent collapse in the price of phosphate made economic policymaking and planning extremely difficult. This was compounded by the fact that Morocco relied heavily on oil imports for its energy needs. Oil was an important commodity which witnessed major price hikes in the 1970s.[267] In addition, the Western Sahara war increased budgetary difficulties. Budget deficits rose from 3,9% in 1974 to 15,8% of GDP in 1977. The current account went from a surplus in 1974 of 3,1% of GDP to 16,5% in 1977. In order to continue the expansive economic policies, Morocco resorted to increased foreign borrowing, resulting in a rise of foreign debt from 12,5% of GDP in 1974 to 37,9% in 1977.[268] Consequently, debt service became an even more acute problem. Illustrative of this is the fact that debt service as percentage of export earnings rose from 6% in 1975 to 58% in 1984.[269]

4.4 Failed Stabilization

The need for stabilization was recognized early on in the 1970s. Both foreign and Moroccan experts were concerned about the possible consequences of a fall in the price of phosphate. The Central Bank, the Ministry of Finance and even the king saw the possible repercussions of public sector growth financed through foreign borrowing. However, political motivations for continuation of public sector growth dominated. This was partly bureaucratic,

[267] Findlay, "The Moroccan Economy in the 1970s," 201-203.
[268] Horton, *Morocco,* 5.
[269] Morrisson, *Adjustment and Equity*, 32.

as several ministries opposed reductions in investment, especially the Ministry of Planning. Partly it was the result of the inclusion of opposition parties in the government after the 1977 elections, who favoured continued state expansion. They relied on satisfying their constituencies through public sector jobs, food subsidies and construction works. The king, in the post-coup climate, was himself eager to increase his support base among the growing urban population.[270]

In the latter half of the 1970s, the government tried to stabilize the economy through budget cuts and import restrictions. Economic policy became focused on stabilization and austerity. Cutting public expenditures was done in such a way as to spare as much as possible expenditures on social welfare and agriculture. Safeguarding these expenditures was politically motivated in order to reduce the possibility of social unrest.[271]

The second oil shock of 1979 increased the necessity for longer term adjustment measures. Initially, the government worked with the IMF in order to get the deficits under control. These attempts at stabilizing the economy failed for external and domestic reasons. Externally, Morocco was faced with a rising dollar. Having dollar-denominated debt, made debt service more costly. Secondly, interest rates worldwide were on the rise as well, aggravating Morocco's debt service problems. The second oil shock and severe droughts increased the import bill. Oil imports became more expensive and the increased need for food imports worsened the current account deficit. Domestic reasons can be found in the social effects of stabilization measures. Measures were not always fully implemented because of social unrest. Stabilization policy was focused on reducing budgets, a task the government was

[270] Azam and Morrisson, "Morocco," 93.
[271] Rhys Payne, "Economic Crisis and Policy Reform in the 1980s," in *Polity and Society in Contemporary North Africa,* ed. I. William Zartman and William Mark Habeeb (Boulder: Westview Press, 1993), 151.

not able to adequately carry out due to political opposition.[272] When, for example, the second oil shock of 1979 led to higher import prices, the government increased civil servant salaries by an average of 10% and raised the minimum wage. The government even increased employment in urban areas by 11% between 1980 and 1982. Even when formal structural adjustment started after 1983, the government attempted to offset a rise in unemployment by creating 50,000 jobs in the civil service.[273] The government could not risk social unrest which became a genuine threat when in 1981 the government reduced food subsidies resulting in a price hike of 50 per cent and major riots broke out in Casablanca. Subsequently, the government abandoned the austerity measures.[274]

Although the situation in 1980 required drastic measures, Morocco managed to stave off structural adjustment until 1983. But this deferment came at a price as the cost of postponement had risen dramatically. Foreign debt accumulation between 1980-1983 was financed through the use of private short to medium term sources against high interest rates and shorter maturities. As a result, foreign debt as a share of GDP stood at 84% in 1984. Only debt rescheduling and multilateral financing through the World Bank and the IMF could alleviate Morocco's debt financed economy. Debt rescheduling and multilateral support came at the price of structural adjustment policies agreed with the World Bank and the IMF.[275]

4.5 Rebalancing the Economy through Structural Adjustment

Having failed to stabilize the economy, the Moroccan government set about reforming the economy at a more structural level. Financial breathing space was provided through the rescheduling of commercial loans and new loans from the IMF and the World Bank in 1983. Policies were devised, with the financial help and expertise of international financial

[272] Denoeux and Maghraoui, "The Political Economy," 57.
[273] Morrisson, *Adjustment and Equity*, 48-49.
[274] Ibid., 32-33.
[275] Ibid., 33.

institutions and consultants. The aim of these policies were twofold: stabilize the current account and budget deficits and reform the economy towards an open, competitive private sector-based economy. The focus in this section will not be on the precise nature of the policies and their outcomes. These will be briefly described. The focus is more on the political economy of policymaking as this will shed light on how the state restructured the economy and in doing so interacted with different political and socio-economic forces in society.

4.5.1 The Political Economy of Trade Liberalization

Regarding the external dimension of the reform programme, strong emphasis was placed on reducing the anti-export bias prevalent in the economy. In order to promote exports, all export duties and licences were abolished in 1984. Similarly, the import regime was gradually liberalized. Morocco became a member of the General Agreement on Tariffs and Trade (GATT) in 1987 and even hosted the inaugural conference of the World Trade Organisation (WTO) in 1994. To increase trade flows with its main trading partners, Morocco signed an Association Agreement with the EU in 1995. Being part of these different agreements and organizations meant that Morocco had to abolish or reduce many of its import restrictions. In 1986, Morocco abolished the list of goods that could not be imported. By the end of the 1980s, around 90% of its imports had no quantitative restrictions. This was just 40% at the start of the adjustment programme in 1983. The maximum ceiling of custom duties was lowered from 400% in 1983 to 45% in 1985. In addition to the liberalized trade regime, the state facilitated foreign investment. The 1973 Moroccanization law was abrogated. Furthermore, a new investment code made it easier to transfer profits back to the investors' home country. In addition, procedures and bureaucratic barriers were either abolished or simplified.[276]

[276] Denoeux and Maghraoui, "The Political Economy," 58-60.

Although the limits of import-substitution were becoming clear, removing the above mentioned protectionist measures proved difficult. Opposition came from many sources. Trade unions feared the impact of increased foreign competition on domestic jobs. Political parties, mainly Istiqlal, USFP and PPS were in favour of a protectionist development strategy. Such a leftist and nationalist course resonated with wider segments of the population. Many in the private sector, but also the state enterprises feared foreign competition if trade was liberalized. Within the government there was opposition as well. Finance officials did not see the logic of giving up a revenue source like custom duties in the middle of a budget crisis. Those government officials whose job was to oversee all the import and export regulations, saw in trade liberalization a direct threat to their jobs and status within the government services. Given the broad opposition against trade liberalization, it is remarkable that Morocco succeeded in bringing down the levels of protection.[277]

Government officials who were in favour of trade liberalization devised a step by step strategy to overcome opposition. They had been in discussion from 1978 onwards with the World Bank. While there was considerable opposition from within the civil service against trade liberalization at the end of the 1970s, the pro-liberalization officials had acquired enough expertise during discussions with the World Bank in order to devise a strategy of how to overcome opposition. Furthermore, the domestic discussions gave these liberalizers a good overview of the arguments and the actors against liberalization.[278]

The first division which the pro-trade liberalization government officials exploited was the one existing within the private sector. CGEM did not pose a united front against liberalization. Part of this was because some within CGEM would benefit from an export-led strategy, while those who were solely focused on the domestic market feared competition. In

[277] Azam and Morrisson, "Morocco," 108.
[278] Ibid., 108-109.

addition, many firms suffered from shortage of capital inputs. And when they did import those capital goods, they paid a high price due to high import tariffs. Therefore, trade liberalization would reduce their input costs considerably.[279]

The second group which helped in overcoming opposition against liberalization were the modern sector farmers. Removing export restrictions enabled those export-oriented farmers in the modern sector to export more. The parliamentarians which represented them supported the government in this aspect of the adjustment programme. These farmers benefited in particular from the abolishment of the state monopoly on the export of agricultural products. Many farmers also benefited from the lowering of the tariffs on inputs needed for farming.[280]

In addition to the modern sector farmers and sections of the private sector, the government tried to win broader support from the population by liberalizing the import of overprotected consumer products. To placate more entrepreneurs, the import of packaging inputs was liberalized, an input which many businesses used. In order to win wider support, negotiations with the private sector led to the gradual reduction of tariffs down to a protection level that satisfied many businesses.[281]

The above description provides an insightful illustration of how trade reform in a fragmented-multiclass state can be carried out. The skilful identification of the policy measures and the careful sequencing of implementation led to a gradual reduction in the anti-export bias of the Moroccan economy. Business interests opposed to the liberalization could not lobby the state to such an extent that reform would have been stalled. The existence of a pro-

[279] Ibid., 108.
[280] Ibid.
[281] Ibid.

liberalization section within the private sector coupled with other beneficiary groups in society opened up the possibility for policymakers to overcome opposition from vested interests. A similar strategy of statecraft can be seen in the implementation of other measures of the structural adjustment programme. The next section aims to provide a picture of the interaction between politics and economics in this crucial period of the Moroccan state.

4.5.2 The Political Economy of Structural Adjustment

With the economy on the brink of collapse in 1983, it was obvious that drastic measures were required. The formal private sector, which was represented by CGEM, became negatively affected by the crisis in the late 1970s. Demands for a change of government strategy became stronger. CGEM lobbied the government for a change in economic policy. However, they were not the only interest group which the government had to take into account. For a proper understanding of state-business relation in the difficult years of structural adjustment, one needs to take a broader political economy approach in order to understand the interaction between various segments of society with the government and how this affected policymaking and policies. The focus in this section will be on the few years prior to 1983 and after the start of adjustment, when the more painful measures were implemented.

Devising and implementing economic policies could not be done unilaterally in a top-down fashion by the government. The structure of power did not allow for such an authoritarian mode of government. As described earlier, the king attempted to increase his support-base by allowing more political party activity. The governments he appointed, either after elections or on a temporary basis, were therefore a reflection of his relationship with political parties. Parliament was required to pass laws, including austerity and adjustment measures. And even though, through electoral engineering, there was always a pro-

government majority, opposition had a platform in parliament through which it could voice its objection to the measures. The USFP and the Istiqlal used these opportunities, especially when they were not part of the government.

The two main opposition parties represented, to a large extent, different segments of society. While the Istiqlal remained more conservative in outlook, the USFP continued the progressive course of the old UNFP from which it had split. The Istiqlal's appeal was based on its nationalist discourse, especially regarding the Western Sahara. Its more conservative stance on social issues was rooted in the ideology of Islamic modernism of its founders. Support was drawn from both the rural and urban areas and was cross-cutting along social class. The progressive USFP was more urban-based and drew its support largely from salaried employees, both from the public sector and the modern private sector. The emphasis placed on a large role for the state made the USFP more popular among civil servants and those employed in the recently established state enterprises. The smaller pro-government parties, the MP, RNI and UC, drew support mainly from the clientelist links between their leaders and their voters.[282] For the MP, it was the ties with the rural notables, while for the more recently created RNI the support base could be found among those independents already possessing social status and power. The RNI was a supporter of industrial modernization and liberal investment policies. The UC, on the other hand, was aiming for the younger generation who were not yet enjoying social status and political power. The UC was more inclined to support smaller and medium enterprises.[283]

A second set of actors who had to be taken into account by the government, were the trade unions. Their power was not only a result of their capacity to call for strikes. They also had seats in parliament. The 1972 constitution established a single-chamber parliament. This

[282] Ibid., 82.
[283] Mednicoff, "Morocco's Political Parties," 398 and 411.

consisted of two thirds directly elected representatives and one third was composed of representatives from local councils, professional organizations and workers. Like the political parties, fragmentation was also a characteristic of trade unions. Morocco possessed three main unions. There is the old UMT (*Union Marocain du Travail*) which was linked to the UNFP. When USFP broke with the UNFP, they created the more radical CDT (*Confédération Démocratique du Travail*) in 1977. And thirdly, the Istiqlal linked UGTM (*Union Générale de Travailleurs Marocains*), which was created in 1959. Together they covered many workers in the modern private sector, the civil service and the employees in the state enterprises. This rendered them a powerful interest group.[284]

In 1981, the announcement of price increases, a reduction in student grants and drought provided the climate for social unrest. Opposition parties, mainly the USFP and the PPS, but also the Istiqlal, called for a reversal of the price increases. Unions, both UMT and CDT joined in the call for abandonment of the austerity measures.[285] In June 1981, a general strike resulted in severe repression and deaths. Out of fear of further social unrest, the king ordered the reversal of some of the austerity measures.[286] The enduring legacy of these riots became apparent in the subsequent implementation of economic policies. The king, the government, employers, but also the opposition parties and unions became weary of unrest that could seriously destabilize the country.

[284] Azam and Morrisson, "Morocco," 85.
[285] Ibid., 94.
[286] Ellen Lust-Okar, "Opposition and Economic Crisis," in *Authoritarianism in the Middle East: Regimes and Resistance,* ed. Marsha Pripstein Posusney and Michele Penner Angrist. (London: Lynne Rienner Publishers, 2005), 149.

After the 1981 riots, the ministry of finance was headed by Abdellatif Jouahri, an able technocrat who had served for 17 years at the Moroccan Central Bank[287]. The decision was made by the king that despite the political risk, adjustment was needed. Jouahri was tasked with implementing this new strategy. In the negotiations with the IMF, the Moroccan delegation led by Jouahri, made it clear that food subsidies should be left untouched. A repeat of the 1981 riots needed to be avoided at all cost. The negotiations took place in a cooperative manner and the Moroccans managed to keep food subsidies out of the agreement with the IMF. Instead Morocco agreed to increase sales and income taxes, levy an exit duty on goods, and reduce planned job programmes and public investments. Some food prices were increased, for example the price for high quality imported flour and petroleum oil. But the increases were low compared to the 1981 announced price hikes. In order to mitigate the effects on the poor, food subsidies were maintained and the minimum wage was increased by 20%. In addition, the sales tax rise did not apply to, for example, energy bills, cooking oil, and medicine.[288]

Jouahri proved not only a capable negotiator with external actors, but performed an equally good job negotiating with the various ministries. Discussions were held in a cooperative spirit. This sometimes led to slow progress, but it also enabled the adaptation of the measures to local and changing circumstances. The economic, social and security consequences were given their due attention. The relevant ministries, like the ministry of interior or the ministry of education could thus influence the structural adjustment programme. This inclusive process made successful implementation more likely than if it had taken place in a top-down manner.[289]

[287] He stayed minister of finance until 1986, overseeing the crucial period of the adjustment programme. He then became head of bank, BMCE. He left that bank when it was privatized in 1995. From 2003 onwards, he was Central Bank Governor.
[288] Azam and Morrisson, "Morocco," 98-100.
[289] Ibid.

The reaction from political parties varied according to the (perceived) effects on their constituencies and whether they were part of the government coalition. To get a more nuanced picture of some possible effects, one needs to disaggregate society into different segments. The first distinction to be made is between rural and urban areas. Generally speaking, the adjustment programme mostly affected the groups furthest away from the traditional support-base of the monarchy, while minimized the effects on the traditional support-base. Social peace was sought by sparing the rural areas, while keeping unrest in the cities to a minimum. [290]

In terms of the effects, the picture is mixed for urban areas, although one can argue that the urban areas bore the largest burden of the costs. Adjustment in the early years, affected the urban population in a variety of ways depending on their source of income. Those employed in the informal economy suffered from job losses, mostly those working in construction. In general, wage earners saw real wages decline due to higher taxes and inflation. Civil servants were faced with cuts in their salaries. On the other hand, some employees benefited from the rising minimum wage, while others benefited from increased sales in their sectors, like handicrafts. Craftsmen working in the traditional sector suffered due to the loss in the purchasing power of the middle class. At the same time, they benefited from increased tourism revenues, because the devaluation of the dirham made Morocco a cheap tourist destination.[291]

The urban poor were relatively protected through subsidies and new programs like housing projects in the slums (see chapter 6 for a discussion of slum upgrading under the reign of Mohamed VI). During the early years of structural adjustment, the government attempted

[290] Ibid., 114.
[291] Morrisson, *Adjustment and Equity*, 14.

to mitigate the social effects by maintaining poverty assistance programs. When cuts did take place in social spending, it was mainly done through cuts in capital spending rather than on the actual services. This meant that preference was given to reducing salaries of teachers and spending on school maintenance rather than firing teachers.[292]

The rural population was affected in the 1980s in different ways, some positive others negative. The exodus to the cities relieved some of the demographic pressures in the countryside. Many migrated to Europe, whose remittances provided an additional source of income through which negative effects of austerity could be mitigated. In addition, there were several good harvest years, especially in 1985 and 1986. Farmers, both smallholders as well as medium and large landowners benefited from increased agricultural output. The medium and large landowners reaped the benefits of a devalued Dirham, making their exports cheaper on the world markets. Both rich and poor farmers gained from the removal of price ceilings on their output and from the reduction of prices of manufactured products which could now be imported more cheaply.[293] In addition, farmers benefited from the abolishment of taxes on agricultural incomes in 1986, while rural job promotion programmes helped alleviate the plight of the rural unemployed.

Since 1977, CGEM had expressed concern over the macro-economic imbalances, especially the growth of public expenditures. They saw the need for stabilization, but wanted the government to go beyond redressing macro-economic imbalances and focus on strengthening the enabling environment for the private sector more generally. Although they were in dialogue with the government in the years prior to 1983, they were not part of the preparations of the adjustment package that was introduced in the summer of 1983. The adjustment programme entailed the reduction of tariffs, trade liberalization, privatization of

[292] Ibid., 15.
[293] Ibid., 14, 53, and 97.

state enterprises, increase in interest rates, budget austerity measures, currency devaluation, the reduction of subsidies, the elimination of price controls and the promotion of export sectors.[294] Some of these measures were inevitably hurting the private sector. Devaluation of the dirham meant that the import of capital goods became more expensive. The reduction in public investment hurt the construction sector in particular. Furthermore, the increase in the minimum wage raised their production cost. The orientation towards foreign markets was supported by parts of the private sector, but they needed state support and time to make the necessary adjustments. Despite these reservations, CGEM formally endorsed the need for adjustment.[295]

Of interest to note is that CGEM assiduously tried to maintain apolitical during the difficult economic and political discussion regarding structural adjustment. Of interest about the eighties are the efforts by CGEM not be captured by the state, in the sense of becoming a politicized organization. With the creation of two parties (RNI in 1977 and UC in 1983) which were close to the administration/palace and led both by two former prime ministers, the private sector became an interesting constituency to court. Partly due to the appeal these parties had to businessmen, CGEM felt compelled to spell out its stance towards politics in general. This took place in a separate meeting in 1985 in which the statutes were adapted to state clearly that CGEM would remain a politically neutral organization. "CGEM prohibits discussions on any political or religious matters". [296] A good illustration what this stance meant in practice was the election of a new president in 1985. One of the two candidates, Mohamed Ben Kirane, was perceived as being too close to the RNI party and hence lost. Thereby saving CGEM from becoming a tool in the party politics of the RNI. Ben Salem Guessous who won the

[294] Henry, *The Mediterranean Debt Crescent*, 85 and Gregory White, *A Comparative Political Economy of Tunisia and Morocco* (Albany: State University of New York Press, 2001), 134.
[295] Azam and Morrisson, "Morocco," 104-105.
[296] Saïd Tangeaoui, *Les Entrepreneurs Marocains: Pouvoir, Societé et Modernité* (Paris: Éditions Karthala, 1993), 252.

election was clear in his position on the matter when he declared that "above the parties, there is the King".[297] His vision of the division of labour between the state and the private sector was one were the private sector was given more room in economic activity with the state as arbiter, regulator and giving general orientation. It was during the presidency of Guessous that CGEM's role was defined, as an organization forging closer cooperation with the administration in implementing economic reform, avoiding falling in the trap of party politics and cultivating relations with the highest authorities of the state.[298] Therefore, CGEM was not captured by a political party regarding the structural adjustment programme.

The fact that the benefits and costs were unevenly spread explains the ambiguous position of the Istiqlal, when the bill containing the major elements of the structural adjustment programme was presented to parliament in the summer of 1983. While part of their constituencies would clearly lose out, some would benefit, especially in the rural areas: large farmers being probably the largest winners. Within the private sector there were also businesses that favoured and benefited from liberalized trade. For the USFP, it was much easier to declare opposition. Many urban middle class families already struggled, because they were less protected by the various social safety nets. Wage earners in state enterprises feared for their jobs as a consequence of more market competition.[299]

As noted earlier, the left-leaning USFP and PPS were in opposition in the summer of 1983 when the bill was introduced to parliament by the minister of finance. Given their leftist ideologies, they voiced strong objections to the measures and opposed the bill in parliament. Because the Istiqlal was part of the government, it felt inclined to support the bill. However, it was a qualified support of the austerity measures. The party called for the need to protect the

[297] Ibid., 254.
[298] Ibid., 260-261.
[299] Azam and Morrisson, "Morocco," 113.

poor, maintain public investments, and limit the import of luxury goods. The other government parties, like the UC and RNI, supported the bill but had reservations regarding the speed of implementation and the social effects of austerity.[300]

Social peace was maintained for the rest of 1983, mostly because the unions followed the party lines. Even though unions were not part of the preparations, they were keen on avoiding confrontation with the authorities. The UGTM followed the Istiqlal line. The CDT feared a repeat of the 1981 repression. Because they towed the USFP line, it meant that they became less inclined for radical opposition after the USFP joined the national unity government in the fall of 1983. Subsequently, CDT leaders were released from jail. This further softened the radical stance of the CDT regarding austerity. No general strikes were called for by either UGTM, UMT and CDT.[301]

Despite the relative acquiescence of political parties and unions, riots still broke out in January 1984. Social unrest was again caused by rising food prices.[302] The 1984 riots were not preceded by negotiations between the government, opposition parties and unions. Some of the opposition parties were reluctant to call for a strike fearing that the promised participation in the 1983 elections would be jeopardized. Although, opposition parties were arguing against price rises, they stopped short of calling for strikes, fearing a repeat of the 1981 riots and the subsequent clampdown on unions and opposition parties. [303]

Violence was mostly confined to the north and Marrakesh. The same cycle of severe repression and a reversal of some austerity measures took place. There are though some

[300] Ibid., 101-103.
[301] Ibid., 104-105.
[302] Between 1982 and 1985, the prices of oil, sugar and flour rose by respectively, 52%, 30% and 87%. Lust-Okar, "Opposition and Economic Crisis," 164.
[303] Lust-Okar, "Opposition and Economic Crisis," 150.

differences between the 1984 and 1981 riots. The riots were most intense in the northern cities of Nador, Hoceima and Tetuan. Part of the motivation lay in the rise of food prices. But two factors affected the north more than other regions. The first was a severe drought in the north. The second factor related to a tax on goods exiting the country. This severely disrupted smuggling on which the urban informal economy in the Moroccan cities close to the Spanish enclaves of Ceuta and Mellila depended.[304]

During the remainder of the 1980s, Morocco did not witness serious social unrest. The adjustment programme was implemented, albeit not always according to the agreed schedule with the IMF and the World Bank. Eventually Morocco resumed normal debt service on its foreign debt in 1992. The adjustment programme in the 1980s had several positive results for the Moroccan economy. Yet some weaknesses persisted. And while attempts were made to limit the effects on the poorer segments of the population, Morocco still scored low on many human development indicators.

Morocco succeeded in reversing the spiralling downward trend in the budget and current account deficits. The budget deficit stood at 2% of GDP in 1992, against 12% in 1983. An annual rise in the value of exports of 9,7% between 1983-1991, made debt servicing more manageable. Debt service as a percentage of GDP declined from 70% in 1983 to 33% in 1992. The debt to GDP ratio fell from 123% in 1983 to 81% in 1991. Foreign reserves, which barely covered a few weeks of imports in 1983, rose to cover six months of imports in 1992. These positive developments allowed Morocco to resume normal debt repayments in 1993. By redressing these imbalances, Morocco became an interesting destination for foreign direct investments, which rose from $70 million a year between 1983-85, to $700 million in 1997.

[304] Morrisson, *Adjustment and Equity*, 100.

Morocco managed to achieve higher annual GDP growth rates in the latter half of the 1980s compared to the first half, 4,3% against 2,9% (in real terms).[305]

However, these macro-economic achievements masked some more persistent weaknesses. GDP per capita growth rates between 1990 and 1995 were negative, on average -1%.[306] This was mainly due to the fact that economic growth could not keep pace with demographic growth. This resulted in low GDP per capita growth rates and increasing unemployment. Furthermore, the Moroccan economy remained too dependent on agriculture, tourism, remittances and phosphate exports. The revenues from these sources are unpredictable due to the volatile nature of for example phosphate prices or tourism flows. The diversification in terms of exports did not go beyond light labour-intensive manufacturing and textiles. In these markets, Morocco faced stiff competition from other lower middle income countries.[307] In terms of socio-economic development, it is difficult to assess the effects of adjustment on poverty and equity. But, in 1995, Morocco scored lower on indicators like infant mortality and adult literacy compared to Tunisia, Egypt and Jordan.[308]

4.6 Conclusions

The two decades after 1972 changed the political economy of Morocco in important ways. The monarchy enlarged its support-base through renewing ties with opposition political forces and forming new political groupings representing emerging factions in society. With Moroccanization of land and enterprises, new sources of patronage were used to draw into the patronage system members of the private sector, administrators, landowners and the military. Increased phosphate revenues financed the expanding the public sector, which meant

[305] Denoeux and Maghraoui, "The Political Economy," 63-64.
[306] Karen Pfeifer, "Parameters of Economic Reform in North Africa," *Review of African Political Economy* 26:82 (1999): 447-448.
[307] Denoeux and Maghraoui, "The Political Economy," 66-67.
[308] Karen Pfeifer, "How Tunisia, Morocco, Jordan and even Egypt became IMF 'Success Stories' in the 1990s," *Middle East Report* 210 (1999): 26.

increasing jobs and social security programmes. The consequence was that the monarchy neither relied on a narrow set of business interests, nor was it completely relying on its traditional rural support-base. The expanding public sector meant that the monarchy could also rely more and more on an emerging urban (salaried) middle class. The move from neo-patrimonial rule back to a fragmented-multiclass state was the answer of the monarchy to the failed military takeovers in the early 1970s. The balancing of different social, political and economic forces became the hallmark of the rule that was being institutionalized in post-1972 Morocco. As such, business interests were dependent on the state, benefited from state resources, yet at the same time were just one of the constituencies on which the monarchy relied. This balancing act of different societal forces became again apparent in the skilful implementation of the adjustment programme in the 1980s. Despite opposition from a variety of segments in society and social unrest, the adjustment programme went ahead. Not in a top-down manner, but through careful negotiations between the state and different interest groups. Here again, private sector interests did not dominate and were not able to steer the course of development in their direction. This was not so much the result of internal division among business interests as well as the exploitation of these divisions and the alignment of pro-liberalization factions at the right time. The end result was a more open and pro-market economy in 1992 than in 1983.

It is important to note that restructuring the economy was mostly started out of sheer necessity. Stabilization efforts of the late 1970s and early 1980s failed. There was the need to seek more fundamental change. But a clear vision was lacking in the early reform years after 1983. Only towards the end of the 1980s did a more coherent view emerge. This view entailed a more limited role for the state. The emphasis was placed more on entrepreneurship, economic efficiency and a larger role for the private sector more generally. This changed view on the role of the state became gradually shared by political forces on both the right and the

left. This more neo-liberal strategy of state withdrawal was illustrated by the speech of the king in 1988. In this speech he announced the need for privatization by pointing out the heavy price paid by society for state firm inefficiencies and his confidence that the private sector was up to the task to fill the void left by the state in promoting economic development.[309] How this increased role of the private sector changed the relationship with the state will be the subject of the next three chapters.

[309] Denoeux and Maghraoui, "The Political Economy," 61 and 65.

5. Morocco in Transition[310]

5.1 Introduction

Morocco came out of the structural adjustment programme with an economy that was less unbalanced compared to the situation at the end of the 1970s. It started repaying its foreign debts according to normal repayment schemes in the early 1990s. Whilst this resumption of normal repayment was seen as a positive sign, some weaknesses remained. These weaknesses were manifested in the lower human development records and in persistent inequality.

On the political front, the traditional opposition became more determined in its call for political reform. The call for change did not only come from formal political parties. The emerging trend in the region of stronger Islamist movements did not leave Morocco untouched. These economic and political trends occurred at a time when the monarchy became increasingly criticised internationally for its human rights record and for the still prevalent corruption.

This chapter provides an analysis of the developments in the political realm and how they coincided with developments in state-business relations. The chapter is intended to show how the transition was achieved from the reign of Hassan II when he died in 1999, to the reign of Mohamed VI. I will argue that much of the groundwork was laid down in the mid-1990s in order to achieve a smooth transition. The contribution of this chapter to the literature is to show how the tentative political opening in the mid-1990s coincided with the rise to further prominence of the kings' economic position through *Omnium Nord Africain* (ONA). This

[310] Part of early drafts of this chapter appeared as a Working Paper. Farid Boussaid, "State-business relations in Morocco," Working Paper 6, (HIVOS and the University of Amsterdam: Knowledge Programme Civil Society in West Asia, 2010).

occurred just before privatization took off in earnest in the late 1990s. More importantly, the regime prevented the rise of autonomous economic power by subjugating the private sector to a politically motivated anti-corruption campaign in 1995-96. The chapter provides a discussion of the interaction between the state and the main business federation, CGEM, during and after this anti-corruption campaign. The second part of the chapter discusses the main political and economic developments under King Mohamed VI. In particular, the focus will be on the developments regarding ONA and other groups during privatization. As for the political side, attention will be devoted to the PJD and a new party, the PAM.

5.2 Political Opening in the 1990s

The first warning sign that social discontent was reaching dangerous levels came in 1990. At the root of the riots in December 1990 were socio-economic conditions. However, other factors played a role as well. One contributing factor was related to international developments. Most importantly was the international crisis as a result of Iraq's occupation of Kuwait in 1990. As a response, Morocco decided to send troops as part of the US-led coalition against Iraq. This pro-Western stance was met with widespread disapproval by a large part of the population and was not only limited to Morocco. The worsening socio-economic conditions amid this international crisis coincided with a rise in popularity of Islamists. In the case of Morocco, the monarchy became increasingly concerned with the rising popularity of the movement led by Abdeslam Yassine[311], *Al-Adl Wal-Ihsan* (the Justice and Charity Society).

[311] Before his movement became known as *Al-Adl Wal-Ihsan* in the late eighties, Yassine was already well known to the authorities. A school inspector from the south of Morocco, he became interested in Sufism and joined a sufi order. His overtly political stance led him to write a letter to the king challenging his rule and even his religious credentials in the early 1970s. By then he had left his apolitical sufi order. The letter and his political activism were enough reason to lock him up in a mental hospital. Willis, *Power and Politics,* 162.

This popularity was most noticeable in urban areas among students, teachers and educated professionals.[312]

Discontent was not only linked to economically-affected citizens and international developments. Opposition parties, mainly the Istiqlal and the USFP, were increasing the pressure on the monarchy for more political liberalization. They formed the so-called *Kutla* in 1989. This formation was composed of the traditional opposition parties, Istiqlal and the USFP, smaller parties like the PPS, and two trade unions, CDT and UGTM. These political forces united in opposition in order to strengthen their position as a political bloc vis-à-vis the pro-monarchy faction in parliament. The pro-monarchy faction included, besides the MP, also relatively new entrants like the UC and the RNI. The *Kutla* chose to show a united front and to demand more political reform in order to break the stranglehold by the pro-monarchy faction on parliament. Three years after its creation in 1989, the *Kutla* issued a set of demands calling for a state based on the rule of law.[313]

The monarchy opted for a co-option and fragmentation strategy in dealing with the formal opposition parties and the growing popularity of the Islamists. Three watershed moments in Moroccan politics of the 1990s will be briefly described below. Firstly, was the adoption of more liberal constitutions in 1992 and 1996. These constitutional changes paved the way for the second important political event, the appointment of dissident Abderahman El Youssoufi as the USFP prime minister in 1998. This happened two years after the third major development, namely the decision by the king to allow moderate Islamists to enter formal politics in 1996.

[312] Lise Storm, *Democratization in Morocco: The Political Elite and Struggles for Power in the Post-independence State* (New York: Routledge, 2007), 54. Willis, *Politics and Power,* 179. James Sater, *Morocco: Challenges to Modernity* (New York: Routledge, 2010), 57 and 60.
[313] Storm, *Democratization in Morocco,* 55-56.

The constitution of 1992 did not satisfy the opposition organized within the *Kutla*. Whilst more liberal due to the inclusion of a clause on human rights, it did not change the formal structures in a significant way. The prime minister was given the power of suggesting ministers to be officially nominated by the king. Yet, the prime minister himself was chosen by the king. Moreover, one third of parliament was indirectly elected. In the past, this third was often made of pro-monarchy representatives. The majority of the opposition called for a boycott of the referendum on the new constitution. In what was perceived to be a rigged referendum, 99,97% voted in favour.[314] The subsequent parliamentary elections in 1993 led to a strong result for the pro-monarchy parties. Although they did well when it came to directly elected representatives, the *Kutla* parties win was diluted by the indirectly elected third of parliament. It was again the pro-monarchy faction of the UC, RNI and MP which came out triumphant after the completion of indirect elections. The *Kutla* parties therefore declined to participate in government as mere junior partners.[315] The leader of the USFP, El Youssoufi, decided to go into exile in the south of France. The king thus turned to former prime minister Lamrani to form a government.[316]

By the mid-1990s, Morocco appeared not to have made enough progress when it came to political reform. Formal opposition parties and extra-parliamentary movements like *Al-Adl Wal-Ihsane* persevered in their call for more political opening. Coupled with increasing foreign pressure, it was clear to King Hassan II that more political reform was needed if he wanted to ensure an uncomplicated transition to his son. The fixation on succession became more urgent given the age and health of the king.[317]

[314] Sater, *Morocco,* 62-63.
[315] Willis, *Power and Politics,* 141.
[316] Sater, *Morocco,* 64.
[317] Storm, *Democratization in Morocco,*72.

The lack of major progress on political liberalization should not obfuscate some of the measures taken to ease political and social tensions. Social dialogue with trade unions was opened in 1994. This was facilitated by the fact that the unions had called off a general strike and by the dismissal by the king of Lamrani, who was seen as hostile to trade unions.[318] A technocratic government was formed under the leadership of Abdellatif Filali[319] in 1994. Liberalization continued, despite the lack of participation of the opposition in government. A less restrictive personal status code was seen as a step in the right direction when it came to women's rights. Broadcasting and teaching in Berber dialect were also made possible. In addition, a human rights council was established alongside a government minister for human rights, whilst more and more political prisoners were freed in the early 1990s.[320]

The 1992 constitution and the tentative steps at political liberalization paved the way for more substantial constitutional reform that would satisfy the opposition parties. One of the major stumbling blocks was the indirect election of a third of parliamentary members. In order to remove this bone of contention, Hassan II proposed a new constitution which included a bicameral parliamentary system. The lower house would be directly elected and the upper house would be indirectly elected. On the one hand, this would strengthen the opposition parties in parliament, because they often did well in direct elections. On the order hand, the monarch ensured that the indirectly elected upper house of councillors could block legislation. Given that these councillors were indirectly elected, it kept the door open to fill the upper house with pro-monarchy loyalists. In addition, there was no stipulation of a direct link between the prime minister and the election result. This left enough discretion to the king to appoint prime ministers not necessarily coming from the triumphant parties. Despite that the

[318] Ellen Lust-Okar, "Opposition and Economic Crisis," in *Authoritarianism in the Middle East: Regimes and Resistance,* ed. Marsha Pripstein Posusney and Michele Penner Angrist. (London: Lynne Rienner Publishers, 2005), 152-155.
[319] His son, Fuad, married the eldest daughter of Hassan II. Fuad Filali served as CEO of ONA (see previous chapter).
[320] Storm, *Democratization in Morocco,* 70-72.

new constitution did not go far enough in terms of structural changes, the USFP, PPS and the Istiqlal did not oppose a referendum on the 1996 constitution.[321]

The subsequent adoption of the new constitution opened the way for the parliamentary elections in 1997. These were held under relatively fair and transparent conditions, with fraud more limited than before. It was thus no surprise that the opposition parties did well in the 1997 elections. The USFP did better than the Istiqlal, while the pro-monarchy parties could limit their losses due to the design of the electoral districts and the indirect elections of the second chamber of representatives.[322] Given this result, the king invited the opposition to form a government. In February 1998, long-time dissident El Youssoufi accepted to become prime minister of a coalition government. The USFP, Istiqlal and smaller leftist parties agreed to a coalition government with the RNI and the MP. The opposition also agreed that the king would retain influence through his loyal non-party independents in key ministries such as the Ministry of Interior, Foreign Affairs , Justice, and Islamic Affairs. The powerful minister of Interior, Basri, remained in place. However, this new coalition was heralded as a significant change and came to be known as *alternance*. Its creation came a year before the death of king Hassan II and thus paved the way for a smooth succession.[323]

The third major development besides the constitutions and the formation of the *alternance* government, was the inclusion of moderate Islamists into parliamentary life. This occurred during the same year as the revision of the constitution in 1996. The evolution of part of the Islamist movement from radicalism to moderation added another positive reason for allowing them into formal politics.

[321] Sater, *Morocco,* 65 and Storm, *Democratization in Morocco,*73.
[322] Storm, *Democratization in Morocco,* 80-84.
[323] Willis, *Power and Politics,* 142.

Elements from the more radical Islamist Youth, which was active in the 1970s, decided to renounce violence. They opted for official recognition in the 1980s and early 1990s, only to see their requests being turned down. However, the group which had organized itself as *Al-Islah wa At-Tjadid* (Reform and Renewal) persevered, while at the same time never boycotted the two referendums on the constitutions of 1992 and 1996. In the liberalizing opening of the mid 1990s, they were finally allowed to join an existing but small political party, the *Mouvement Populaire Démocratique et Constitutionnel*[324] (MPDC). Given their track record, the new members had little difficulty explicitly accepting the monarchy's legitimacy, nor did they hesitate to renounce violence. The MPDC was soon renamed Party of Justice and Development (PJD). It participated in the parliamentary elections of 1997, fielding candidates in a limited number of constituencies and winning nine seats in urban areas.[325]

One can argue that the inclusion of the moderate Islamists had two consequences. It fragmented the Islamist voice, by allowing the more moderate ones to enter formal political activities, while *Al-Adl Wal-Ihsan* remained outside of formal politics. At the same time, the

[324] The MPDC was led by Abdelkrim Khatib (1921-2008). It was a breakaway party of the MP. The split occurred in 1967, with the MPDC focusing on a more urban constituency. Although the MPDC remained small, the personality and the family links of Khatib made him a trusted member of the royal entourage. Khatib was the first French educated Moroccan surgeon. He was the grandson of an Qarawiyin and Oxford educated grand vizir, Mohamed Guebbas (1847-1934). This connection ensured Khatib's inclusion in the circles around Mohamed V and later his son Hassan II. Khatib was one of the founding members of the rural-based, pro-monarchy MP and proved crucial in putting down the 1958 rebellion in the Rif. This was partly due to the fact that Khatib was married to the sister of the prime minister appointed by Abdelkrim Al Khattabi during the Rif rebellion against the Spanish and the French in the early 1920s. His more contemporary connections were noteworthy as well. Khatib was the uncle of Ismail Aloui, who was the secretary general of the communist PPS in the late 1990s. Khatib was also the uncle of Hosni Benslimane, who has been the head of the Moroccan Gendarmerie since 1973 (until the present day). Lastly, Khatib was the great uncle of Saad Hassar, who served under the current king as secretary of state within the Ministry of Interior. These links made Khatib an important member of the royal entourage. Not only did he have links to the strong arm of the state, through Benslimane and Hassar, but also to traditional forces within the independence movement and even the Rif rebellion of the 1920s. In addition, he had links to two political trends, the left and the Islamists. The latter were allowed to use his party to formally launch their political activities in 1996. He remained chairman of the PJD until 2004. Vermeren, *Le Maroc,*74-76 and Telquel, October 2008.

[325] Willis, *Power and Politics,* 180-181 and Sater, *Morocco,* 73.

rise of a new political force posed a challenge to the traditional opposition which was sharing government responsibility after 1998. The voice of the urban middle class was from now on increasingly split between, what used to be, the traditional opposition USFP and the Istiqlal, and the emerging PJD. They would vie for the vote of the professional and salaried constituency in the urban areas.

The result of this increased political opening was that political parties were given a stake in formal politics, and in the case of Istiqlal and USFP even decision-making. Although, the king remained a pivotal actor due to, for example, the appointments of ministers to sensitive ministries, the political process was significantly more open that in the decades before. However, as will be shown in the next two sections, sharing some political power by the king did not coincide with sharing economic power. Paradoxically, even though economic liberalization continued in the 1990s, it did not come at the expense of the economic position of the king and his entourage. The discussion below will show how this affected state-business relations prior to the ascendancy to the throne of King Mohamed VI. First, a brief discussion is included to illustrate how different business groups consolidated their position in the 1990s, chief among them ONA. Secondly, a detailed analysis follows of the anti-corruption campaign and the consequences for the autonomy of the organized private sector in Morocco.

5.3 State-Business Relations in the 1990s

5.3.1 The Moroccan Business Elite, Business Groups and their Consolidation of Economic Power

This section will highlight a feature of the Moroccan political economy, which are the business groups[326]. I will start with a short description on the origins of the Moroccan business elite. As was explained in chapter 2 (section 2.2.7), the urban business elite had established commercial ties which extended to Europe, the Middle East and Sub-Saharan Africa. They enjoyed and relied for their fortune on privileged access to the sultan and his administration, while some of them at the same time benefited from protection by foreign powers.

At the eve of independence, it was mainly a network of Fassi families[327] who dominated the commercial elite. Although they sometimes overlap, the commercial families are distinct from the *makhzen* and *sharifian* families. The *makhzen* families owed their prestige and power to the positions they held within the administration. However, those who had not established some autonomous wealth, like the Moqri and Jama'i families, did not fare well during the protectorate and after independence. The Tazi's Benslimanes and the Bargachs amassed sufficient wealth in order not to be marginalized when the protectorate came to an end. Something similar applies to *the sharifian* families, whose prestige is linked to them being descendants of the Prophet. This provides them with a certain religious legitimacy. While some of them did not enjoy particular wealth, others managed to make good use of their family prestige to acquire wealth, often through interlocking marriages with commercial families. The

[326] Which is defined as: "a cluster of companies linked by financial and personal relations as well as their relationships to the same decision-making centre. Personal connections and family name played a crucial role in the influence of the group, which was often identified with a particular member of the family controlling the organization." Cammett, *Globalization and Business Politics*, 95.

[327] This does not necessarily mean they were all based in Fes. But it often did mean that many of the commercial families originated from Fes. For example, due to the new economic opportunities that came with the expansion of Casablanca under the French protectorate, many Fassi commercial families moved there to take advantage of these possibilities.

more wealthy *sharifian* families, like the Lamrani, Kettani Wazzani and Laraqi constituted an important element of the business elite in post-independence Morocco.[328]

As noted in chapter 2, the protectorate period enabled some of these elites to expand their wealth by moving into the modern sectors of the economy which were developed by the French. When they became increasingly marginalized by the French, the commercial elite started backing the independence movement. These backers included Laghzaoui and Sebti, who made their fortunes during the protectorate era.[329]

After independence, politics became an increasingly important activity for some of these old Fassi commercial families and their offspring. Moreover, this provided those families with an important opportunity to reap the benefits of state expansion in the economy, as was described in chapter 3. The state increasingly relied on the expertise of the commercial families when it came to finance and trade. Ten years after independence, many parastatal enterprises were headed by members of the commercial elite. For example, a Bargach was Minister of Development, while a Laraqi was heading the *Office de Contrôle d' Exportation*, and several Benjellouns were occupying important positions within BMCE, BNDE and the *Commission Nationale des Comptes*.[330]

The urban commercial families formed the basis of a nascent industrial bourgeoisie in the early 1960s. State support and increasing demand ensured profitable opportunities. The expansion into industry occurred mostly in textiles, food processing and construction. Often

[328] Waterbury, *Commander,* 94-100.
[329] Tangeaoui, *Les Entrepreneurs Marocaines,* 135.
[330] Waterbury, *Commander,* 107.

this took the form of setting up new firms or taking over of foreign firms left behind by the French.[331]

While before the protectorate landownership was often seen as a an uncertain investment due to political instability, tribal uprisings and the danger of confiscation, things started to change with the arrival of French *colons.* Both the urban elite as well as the rural notables started to take note of the efficient farming methods of the French. It was therefore no surprise that landownership increased during and especially after independence. The urban elite and the rural notables invested in land in order to exploit it commercially using modern farming methods.[332] As noted in chapter 3 and 4, it provided the monarchy with a source of patronage when it came to redistributing former *colon* landholdings.

As was discussed earlier in chapter 3, the monarchy sought support among the rural elite in the early independence period. This ensured the rise of a substantial rural elite who benefited from state support and developed the modern part of the agricultural sector. The lack of land reform and the continuous taking over of *colon* land secured the position of this part of the Moroccan business elite.

The Moroccanization policies of the 1970s and the continued protection of the domestic economy further strengthened the position of the dominant commercial, industrial and landowning families. The rise of the business group[333] became a prominent feature of the Moroccan political economy. The concentration of wealth continued even into the austerity years of the 1980s. The Moroccan political economy was thus characterized by a small elite

[331] Cammett, *Globalization and Business Politics,* 88.
[332] Waterbury, *Commander,* 139-142.

who managed business groups and had stakes in various sectors, ranging from traditional textile factories to newer sectors like electronics, pharmaceuticals and chemicals.[334] Although the Fassi families are often perceived as the backbone of the Moroccan business elite, increasing competition has emerged from the Soussi[335] families. Although they emerged later than the Fassi families, the Soussis still managed to acquire major stakes in the food-processing, tourism, textile and even banking sectors. Although the Moroccan business landscape is sometimes depicted as a competition between Fassis and Soussis, in reality there is overlap, either in business interests or personally through marriages. This blurs the distinction between Fassis and Soussis.[336]

Having outlined the origins of the Moroccan business elite, I will now turn to a description of some of the main business groups in Morocco. The below is not meant as an exhaustive overview of the business groups operating in Morocco. However, by pointing to the business interests of the palace and the linkages with other groups, I intend to show that this particular characteristic affects state-business relations in a profound way. This will become clear in the discussion of the relationships between the state and CGEM.

An important business group which consolidated its holdings in the 1980s is the one belonging to the Kettani family. Moulay Ali Kettani started off as a cloth merchant prior to independence. He then ventured into textile when he bought a textile firm from an Italian company one year after independence.[337] Investments in the textile sector expanded in the 1960s and the company ventured into different sectors, including real estate, electric

[334] Cammett, *Globalization and Business Politics,* 98.
[335] The Soussis populate (or originated from) the Souss valley in the south of Morocco. Their venture into commercial activity in urban areas was mostly concentrated in petty trading, wholesale and retail. The family and tribal networks ensured a strong connection between the traders in various cities and with those left behind in the valleys.
[336] Tangeaoui, *Les Entrepreneurs Marocains,* 147-154.
[337] Cammett, "Challenges to Networks," 250.

household goods and insurance. Most importantly, in 1968, Moulay Ali Kettani acquired a stake in a private bank that was still partly foreign-owned. This bank, which became known as *Wafa* bank was the first privately-owned bank to be fully Moroccanized. In the 1980s it grew and became the fourth largest bank in Morocco, behind *Banque du Commerce Marocain* (BCM) which was partly owned by ONA.[338]

The group headed by Benjelloun has a variety of businesses within its portfolio. Benjelloun hails from a Fassi family, which had prospered due to trade with Manchester (see chapter 2). Othman Benjelloun amassed his fortune in the car and insurance industry. In 1989, he bought up an insurance company which was originally set up by nationalists in 1949, among them Benjellouns father. His group was named Finance.com, with stakes in a wide variety of businesses.[339]

A prominent Soussi group was founded by Akhennouch. He moved from Agadir to Casablanca in 1932. He started in boutique shops before moving back to Agadir and venturing into the fishing industry. After having spent time in prisons due to his involvement in the independence movement he soon established himself again and explored the possibilities of investing in transport fuel. The foundations were laid for the Afriquia petrol station company through his first purchase of oil from the USSR in 1962.[340] His son extended the family business and is currently regarded as one of the richest man in Morocco. The core activities of the group are still firmly in the petrol and gas industry. This did not prevent Akhennouch, the son, to venture into the media through the ownership of an economics newspaper, *La Vie économique* and other magazines. All the activities fall under the holding group Akwa. Akhennouch has also been minister of Agriculture and fisheries, an important post for the

[338] Henry, *The Mediterranean Debt Crescent*, 145-147.
[339] Rami, *Essai,* 125-126.
[340] Tangeaoui, *Les Entrepreneurs Marocains,* 146.

Souss region, since 2007 until the time of writing. His wife is a prominent figure when it comes to foreign brands. For example, she introduced both Zara clothing as well as Galeries Lafayette to Morocco.[341] Akwa group is also strongly implanted in the refinery part of the newly built Tanger-Med port.

By far the most important business group in Morocco is ONA. It started as a transport company in 1943, but the basis was laid much earlier by French and Dutch banks in 1919.[342] In the 1970s, it expanded into mining and the automotive industry. While Morocco was in the midst of a severe economic crisis, a transaction took place that would have serious implications for state-business relations in the following decades. King Hassan II acquired a stake in a conglomerate, ONA, in 1980. A decade later, gross revenues of ONA were in the environs of 5,5% of GDP.[343] As a conglomerate it had stakes in various sectors of the economy, thus providing the king with an important source of economic power and patronage. The combination of these new investments in the modern sector and the vast royal land holdings inevitably meant that the business community in its dealing with the state has to take into account the actions of ONA. In other words, the King can influence the business community not only through the channels of the state, but also through direct economic competition. This is a unique setting in which ”no Moroccan businessman has been able to occupy an important place in the private sector since independence without the personal agreement of the king. Sometimes his intervention takes the form of an invitation to take over a particular enterprise in association with a foreign partner, with an offer of personal or financial support.”[344]

[341] Vermeren, *Le Maroc,* 291-292.
[342] Cammett, *Globalization and Business Politics,* 87.
[343] Clement M. Henry, *The Mediterranean Debt Crescent: Money and Power in Algeria, Egypt, Morocco, Tunisia and Turkey* (Gainesville: University Press of Florida, 1996), 85.
[344] Leveau, *Le fellah Marocain,* 257.

In the 1980s, ONA expanded greatly into agro-food sector, mainly through the acquisition of SIHAM, a Danish subsidiary. In addition, ONA also acquired the state sugar refinery when it was sold at the start of the privatization process. This ensured that ONA could keep the price low of sugar consumption, a sensitive good given its heavy consumption by Moroccans. The expansion continued in the 1980s with the inclusion of a wide variety of activities, ranging from fishing sector, tourism, to insurance, supermarkets, the media and milk factories. This expansion often took the form of joint ventures with foreign companies like Danone and AXA. In 1999 and 2003 ONA and *Société Nationale d'Investissement* (SNI) strengthened their ties further.[345]

One other important sector in which ONA acquired stakes was the banking sector. This is of significance not only because of the line of business banks are involved in, credit allocation, but also the timing of the intervention in the banking sector. Controlling credit allocation to the private sector is an important tool of economic power. Buying stakes in the banking sector prior to privatization and prior to financial liberalization was a key strategic intervention aimed to ensure the power of the monarchy was maintained in the economic realm as well, despite increased economic liberalization. The banking sector, and especially the oligopolistic nature of the Moroccan banking sector, provides an opportunity to understand the dominance of business groups in Morocco. This in turn explains the intertwined nature of patron-client networks at the top of the private sector in Morocco.

The Moroccan central bank, Bank Al-Maghrib, remained relatively autonomous from political institutions. This was largely achieved by the palace through the appointment of a governor who was closely linked to the palace and stayed at the helm of the bank for a quarter of a century. This ensured that the banking sector maintained a relative distance from political

[345] Rami, *Essai,* 280-289.

institutions. The only exception was the publicly owned *Banque du Crédit Populaire* (BCP). This bank was created in 1961 and became a leading bank in Morocco. It was partly used by the palace to co-opt the Istiqlal party. Besides being headed by an Istiqlal leader, its credit allocation revealed a preference for the typical supporters of the Istiqlal, namely the smaller merchants artisans.[346]

After having stabilized the economy by bringing down the trade and fiscal deficit, the Moroccan government started liberalizing the financial sector. In 1991, an important step was taken by removing restrictions on credit allocations. The rationale for liberalization was the need for greater competition which would benefit bank customers. However, the liberalization in Morocco took place in a banking sector that was dominated by eight public and private banks who operated like a cartel, even after liberalization.[347] More importantly, the king ensured that his conglomerate ONA dominated the banking sector before financial liberalization was implemented fully. In 1987, ONA bought stakes in one of Morocco's leading banks, *Banque du Commerce Marocain* (BCM). At the time, BCM was a medium-sized privately-owned bank. During the protectorate era it belonged to French banks. It stayed under French control even when Moroccanization was announced in 1973. However, a few years later it was Moroccanized and control was taken over by young Moroccans. During most of the 1980s, the bank managed to maintain its position as a medium-sized bank.[348] In the year Morocco embarked on financial liberalization, 1991, ONA added a stake in two other smaller banks.[349] ONA would thus become increasingly interlinked with many groups in Morocco.

The opaque structure and intertwined nature of these groups makes a detailed analysis difficult. What is clear is the fact that the top of the Moroccan private sector is

[346] Henry, *The Mediterranean Debt Crescent*, 143-144.
[347] Ibid., 58-60.
[348] Ibid., 144-145.
[349] Ibid., 85-86.

dominated by a few interconnected individuals, prime among them the king. As such, the Moroccan private sector displays many features of an oligopoly, especially in the banking sector.

5.3.2 State-CGEM Relations in the 1990s

Coinciding with the cautious political liberalization in the nineties was the changing relationship between the state and the formally organized business community. The key questions to be addressed in this section is whether the political opening led to a more autonomous role of organized private sector? Or, put differently, whether the increased role of business groups, which benefit from the new patronage resources becoming available through privatization, led to the undermining of an autonomous role of the private sector vis-à-vis the regime? But before delving into state-CGEM relations, a sociological profile of the CGEM leadership is provided in the next section.

5.3.2.1 Sociological profile of CGEM leadership

This section starts with a sociological profile of the senior leadership of CGEM between 1988 and 2010. It contains mostly a sociological profile of the senior leadership (presidents, vice-presidents and head of commissions). This overview provides a good insight into the type of entrepreneurs who have been managing CGEM, the networks from which they emerge and the various interests they represent.

In 1988, Abderrahmane Bennani Smires was elected president of CGEM. Although born in 1931 in Marrakesh, he comes from a prominent Fassi family. After attending the *École National d'Administration Publique*, he held various senior positions in the Ministry of Health and the Ministry of Justice before serving briefly as director of the subsidiary of the famous

Banque Lazares. Since 1970, he was CEO of a large Moroccan soft drink company, SIM. A company, set up in 1917, which got into difficulty in 1965 due to new taxes introduced by the government. Without being able to secure a loan from banks, Smires was still able to buy the company with others and turn it into a flourishing enterprise which even managed to buy the franchise to Pepsi Cola in 1974. He never held any government/political post as opposed to some of his predecessors.[350]

Smires' successor, Abderrahim Lahjouji similarly did not occupy a political position prior to his election as president of CGEM in 1994. Neither did he have an advanced formal education. He entered the business world through his father's enterprise which was set up initially in Meknes before it was installed in Casablanca. In 1979, Lahjouji was one of the founding members of the association representing the construction sector in Morocco. In 1981, this became known as the *Federation Nationale du Bâtiment et des Travaux Publics*. It was the sector which benefited most from the increased public sector construction investments in the 1970s. It was therefore the one which was hard hit when the government slashed the investment budgets as part of the structural adjustment programme of the 1980s. Besides being active nationally, he also managed to cofound the *Union Entrepreneurs Arabes* in 1983. The presidency of this organization was awarded to Morocco. The importance attached to this was underlined in 1986 when King Hassan II received members of this pan-Arab association. Lahjouji continued his work on the international scene and was active in different associations. During the 1980s he was already active in CGEM as a member of its executive bureau. What is of interest regarding the profile of Lahjouji is that he, in a sense, represents a break from the past. Although he does come from the business world, he is not a member of a prominent family nor did he achieve prominence by climbing through various public administration positions or political office. His ascendancy at the helm of CGEM was

[350] Tangeaoui, *Les Entrepreneurs Marocains,*212-13 and 262.

mainly achieved through his long career trajectory within business associations. His election is remarkable if one takes into account the profile of the three opponents he ran against in 1994.[351]

Two of the opponents, Benkirane and Bel Madani, fit the typical career trajectory for a president of CGEM. Benkirane originates from Marrakesh and comes from a prominent commercial family. He exemplifies those Moroccan businessmen who managed to hold various positions in both the public and private sphere. Besides managing his business group in Casablanca, he set up two newspapers, held public positions as director at CDG, undersecretary for Industry and Commerce and director at the *Office commercial et d'exportation.* He was also appointed ambassador to Belgium and to the EU in the late 1970s. In Morocco, he was a member of parliament and at one point he presided over the provincial council of Marrakesh.[352]

Similarly, Bel Madani comes from a Fassi family and was educated in French. He worked for the Moroccan subsidiary of Nestle, before he set up his own business group which was active in various sectors. In terms of association position, he was president of important business associations, among them the one representing the automobile industry, one representing electronics, another one representing industry and the one representing exporters in general. Given this profile, he was deemed a stronger candidate in the run up to the 1994 elections.[353]

[351] CGEM infos and Myriam Catusse, *Le temps des entrepreneurs? Politique et Transformations du Capitalisme au Maroc* (Paris : Maisonneuve et Larose, 2008), 215.
[352] Catusse, *Le temps*, 214.
[353] Ibid., 215.

Although the third candidate, Benchehla, comes from a modest family from Oujda, he also held various important positions in CGEM, as well as being one of the founders of a party, UC. However, he was elected vice-president of Grand Casablanca on the ticket of the RNI.[354]

Despite these strong candidates, Lahjouji won in the second round against Bel Madani with 64% of the votes. This is interesting given the fact that Bel Madani was perceived as having the support of the large business groups. Lahjouji proceeded to appoint Benkirane as his vice-president. This strengthened his position by having a strong establishment figure within the highest ranks of CGEM. Besides this appointment, Lahjouji also tried to professionalize CGEM by appointing more permanent staff. This would ensure more continuity despite the changes at the top after every presidential election. It is of interest to note that he appointed A. Ayouch in charge of human resources. He knew Ayouch from his time at the construction sector in 1980. Ayouch served several times in prison in the 1980s, mainly because of his radical leftist activities. He was an active member of the OADP party, a leftist party founded in 1983.[355] This appointment would become less unusual after the tenure of Lahjouji. His successor Hassan Chami would install several high ranking officials within CGEM who had strong leftist credentials. This ascendancy of appointments of left leaning officials coincided with the tenure of the USFP prime minister El Youssoufi, how much this is mere coincidence can be debated.

Lahjouji was unopposed when he filed his candidacy for his second term in 1997. He handed over the presidency to one of his vice-president, Chami, in 2000. Being already a vice-president was to the advantage of Chami during the elections. His opponent was a self-made man who stood little chance. Chami was born in 1938, into a well-known Fassi family. He did his studies at the elite Paris university of *Ecole Nationale des Ponts et Chaussees* and worked as

[354] Ibid., 214-215.
[355] Ibid., 216-217.

port director in Casablanca and Mohammadia before becoming Minister of Public works and communication in 1970. After one year, he became director of the *Office de commercialisation et exportation*.[356] This lasted until 1976 after which he ventured into business. He ventured into textiles, ceramics, public infrastructure and headed several business associations, like the one representing the public construction sector and the one representing those active in ceramics. He was appointed by Lahjouji as vice-president of CGEM.[357] His career trajectory fitted more the traditional ones before Lahjouji was elected, in the sense that Chami was a businessman from a good fassi family, who had success in both the public sector as well as in the private sector. However, what is of interest is that he continued the appointment of left-leaning staff and vice presidents. For example, he appointed Karim Tazi as the head of a commission within CGEM. Tazi was president of the textile associations, AMITH, from 2004-2007. Another example is A. Debbagh, who was appointed by Chami as vice-president. He is of Fassi origin and worked at the BMCE. He also set up his own textile firm. Debbagh was a council member for the USFP and was an active proponent of the representation of small and medium enterprises. He was the leading figure behind the setting up of an association for small and medium enterprises which was based within CGEM. He eventually stood against Chami in 2003, but lost.[358]

As will be discussed later, the era of Chami was marked towards the end by a more acrimonious relationship between CGEM and the state. This ended with the election of Moulay Hafid Elalamy as president of CGEM in 2006. Elalamy was born in Marrakesh after independence in 1960. His father was a banker. He received his university education in Canada and worked in insurance before he joined ONA in 1989 and became its secretary general in

[356] Tangeaoui, *Les entrepreneurs*, 261.
[357] Catusse, *Le temps,* 220.
[358] Ibid., 219 and 221-222.

1994.[359] It was therefore of little surprise that Elalamy appointed as head of various commissions, some of the most senior businesspeople in Morocco. He managed to co-opt within CGEM businessmen like, Akhennouch (Akwa group), Bensalah (Holmarcom), Terrab (OCP), Kettani (Attijariwafabank), Bendidi (ONA). At the same time, he also appointed as two of his four vice-presidents, Kessal and Faouzi Chaabi. Kessal had taken over the federation of SME's from Debbagh after 2003. Kessal holds a doctorate in economics from a Parisian university and was active within leftist parties like PPS and FFD. Faouzi Chaabi is the son of the real estate tycoon Chaabi, who is often at loggerheads with leading Fassi businessmen (see next chapter). Elalamy also appointed Aboudrar , a former leftist dissident who has spent years in prison in the 1970s. He was a leading figure within Transparency Maroc and held as well a high level position within CDG. Within CGEM he was made responsible for the commission on fighting corruption.[360] Despite these appointments, it was clear that Elalamy was intended in restoring relationships between CGEM and the large business groups which had been damaged under Chami, especially during the last part of his tenure.

The successor of Elalamy, Mohamed Horani, shares few of the background traits of Elalamy, except that Horani also worked for ONA early on in his career. Born in 1953 in Casablanca in Derb Fokarra (which literally means the neighbourhood of the poor), in a very modest family, his father being the local baker. He took degrees in mathematics and statistics and started his career in the planning ministry. He soon left for the private sector which led him through ONA, Bull Maroc and a Moroccan IT company. In 1995, he set up HPS, a software company which specializes in electronic payment solutions. It grew markedly with a worldwide clientele and was even listed on the Casablanca stock exchange in 2006. The success of his

[359] Jeune Afrique, 12/06/2206.
[360] LVE 29/09/2006 and Catusse, *Le temps,* 222, 224 and 228.

company made him an ideal candidate for the presidency of APEBI, the IT associations, which he headed from 2008 until he was elected head of CGEM in 2009.[361]

Upon his election, Horani elected seven vice-presidents. Some of these had already worked for Elalamy, albite sometimes under a different capacity. The new senior leadership included, Saida Lamrani Karim, the daughter of wealthy businessman and former prime minister under Hassan II. Two of the other vice-presidents had previously worked for ONA, while most held previous senior positions in various business associations, like those representing artisanat and tourism.[362]

Although the above brief description provides just a glimpse into the background of those holding senior positions within CGEM, one can conclude that there is some kind of continuity. Being part of CGEM inevitably means having private sector experience, it is interesting to note though that many also had public sector experience. Of interest is the rise at one point of political leftists officials within CGEM, something that seems to have coincided with the tenure of USFP prime minister El Youssoufi. Of importance is the weight the large business groups, especially ONA still have within CGEM. It does not necessarily mean that the candidate of choice of the large business groups eventually makes it. Compared to the late eighties, one could conclude that the composition of the type of leadership of CGEM has not changed markedly. Prominent business elites and groups still have an important position within CGEM.

[361] Jeune Afrique, 17/06/2009, LVE, 9/11/2007.
[362] L'economiste, 17/07/2009.

5.3.2.2 State-CGEM interactions in the 1990s

Having provided an overview of the sociological profiles of CGEM, this section looks at the evolution of state-CGEM relations in the 1990s. CGEM became a more vocal voice, partly due to the emergence of new sector-based associations that were joining CGEM in the early 1990s. The discussion below will show how the relationship moved from a close-knit and largely informal relationship to a more autonomous stance in the nineties. However, this was reversed by subordinating CGEM during the sanitation campaign in 1995-1996 and through leadership elections.

Upon taking over the reign of CGEM presidency, Smires was positive regarding the outcome of structural adjustment programme in Morocco but was still critical of all the obstacles companies were facing in terms of high energy and credit costs, administrative barriers, and unfavourable taxation in certain domains. Regarding the business community, he saw room for improvement in terms of how the formal private sector organized itself.[363] During the presidency of Smires, CGEM became a more constructive partner for the authorities. It accepted the strategic direction taken towards a more liberal market economy. This constructive attitude did not prevent CGEM, and federations attached to CGEM, to voice concerns regarding the effects of increased foreign competition. CGEM thus preferred to seek a partnership role in which the details of the liberalization programs could be modified instead of standing aside opposing the new reality of structural adjustment.[364]

The growing role of the private sector in the economy as a result of the economic restructuring and the more modern outlook of a new generation of entrepreneurs led to further change in the mid-1990s. CGEM became even more active and called for a level playing

[363] Tangeaoui, *Les Entrepreneurs Marocains,* 212-215.
[364] Ibid., 264.

field and more transparency.[365] With the election of Abderrahim Lahjouji in 1994, CGEM had a leader in house with a vision and a different educational and business background than the previous leaders, who were primarily educated in France. The candidacy of Lahjouji was supported by the Minister of Commerce, Driss Jettou[366].[367]

The presidency of Lahjouji was perceived as being pivotal. He was credited for transforming CGEM into a more representative organization with increased members both regionally based as well as sectorally. Furthermore, the recommendations coming from CGEM were founded on sound studies, rendering it a trusted interlocutor for the government.[368]

Besides leadership changes, more structural changes occurred as well. The structural change was ironically pushed for by Hassan II himself who urged CGEM to restructure and become more representative by including more members of small and medium enterprises. This led to the inclusion of 24 sectoral federations by the end of 2001, and 31 by 2009. Furthermore, there was an increase in firm membership from 400 to 1800 in 2001, to 2500 in 2009. Cross-sectoral commissions were set up and the management of the organization was professionalized, through for example stipulating that the CGEM leader, upon election, would stop his or her business activities. More importantly, CGEM tried to become financially more independent by financing itself through membership fees.[369] The inclusion of small and medium-sized enterprises is significant, especially viewed in terms of the patron-client system. Most of these companies are not part of the top level patron-client networks and thus are

[365] Guilain Denoeux, Corruption in Morocco: Old Forces, New Dynamics and a Way Forward. *Middle East Policy* 14:4 (2007): 146.
[366] Jettou himself was a successful businessman in the textile sector, held various government positions and would later become prime-minister in 2002. See second section of this chapter.
[367] L'economiste, 07/07/1994.
[368] CGEM info, 28 July 2000
[369] James Sater, "Civil Society, Political Change and the Private Sector in Morocco: The Case of the Employer's Federation Confédération Générale des Entreprises du Maroc (CGEM)," *Mediterranean Politics* 7:2 (2002): 17.

stronger proponents of greater transparency. CGEM became an active lobbyist for these new members.[370] One can thus conclude that CGEM became more independent from the state and that it was developing the capacity to take a more autonomous position. The push from the state to increase representativeness made it become more encompassing.

An interesting episode which had a lasting effect to this very day on state-business relationship in Morocco is the anti-corruption campaign that was launched in 1995-1996 by the state authorities[371]. Although brief it revealed the changing dynamics between the state and the private sector.

The newly revamped CGEM and its leader were put to the test in the anti-corruption campaign of 1995-1996, or as it was referred to by the authorities, the *campagne d'assainissement* (clean-up campaign). The campaign started towards the end of 1995 as a campaign against drug trafficking and smuggling, but soon, companies, parliamentarians and (senior) custom officials became targets of the campaign when administrative corruption became a goal as well. The effect was that the "the entire context in which Moroccan businesspeople had long been used to operate had been turned upside down. Tacit understandings about which regulations could safely be violated, or who enjoyed virtual immunity from prosecution, no longer applied."[372]

The state embarked on this campaign, partly in response to damning reports by international organizations and international media regarding the pervasive role played by

[370] Denoeux, "Corruption in Morocco," 146.
[371] Note that this anti-corruption campaign took place during the tenure of the 1994-1997 technocratic-royal cabinet under the prime minister ship of Filali, whose son was married to the daughter of Hassan II. These three years were the interlude between the 1992 and 1996 constitution, the latter which would create the circumstances for the *alternance* government in 1998.
[372] Gillian, Denoeux, "Understanding Morocco's 'sanitisation campaign'(December 1995 to May 1996)," *The Journal of North African Studies* 3:1 (1998): 104.

corruption in the economic and political life of Morocco. The rampant corruption basically meant that the division between legal and illegal was blurred and the state was being deprived of vital resources due to widespread tax evasion. The timing was of importance as it came during a period in which the economic adjustment process had led to a decreasing role of the state and an increasing role for the private sector, the latter actively encouraged by the state in its privatization drive.[373]

The campaign was largely directed by the Minister of Interior, who had by now been serving for two decades in this position and was regarded as the strong man of the regime in Morocco during the reign of King Hassan II. Because of this, the campaign was understood in terms of a "determined and powerful display of arbitrary rule on the part of the centralized power".[374] It showed that the monarchy, even in the age of economic liberalism, was against an autonomous evolution of the private sector.[375] Having the Minister of Interior direct the campaign enabled the king to step in at a later stage and seal a deal which would lessen the tension between the state and the private sector. The campaign and the way it ended opened up the possibility for the monarchy to co-opt a new group, in this case the emerging business leaders.[376] However, from then on, it was clear that the organized private sector would be in a sub-ordinate role vis-à-vis the state.

As the campaign was reaching its height, the business community feared the consequences not only for entrepreneurs personally, but for the wider economy as a whole. The uncertainty was leading to a slowdown in economic activity. The private sector was not as much against the application of the rule of law, but was troubled by the arbitrary use of this

[373] Sater, "Civil Society," 19.
[374] Beatrice Hibou, "Fiscal Trajectories in Morocco and Tunisia", in *Networks of Privilege in the Middle East: The Politics of Economic Reform Revisited*, ed. Steven Heydemann. New York: Palgrave Macmillan, 2004, 203.
[375] Denoeux, "Understanding Morocco's," 112.
[376] Sater, "Civil Society," 23.

argument, arguing that corruption was endemic and would not be solved by putting businessmen behind bars, especially if this was done in an arbitrary way without given due weight to the judiciary process. The assertive role of the CGEM through its leader Lahjouji led to a perception among the public, observers and the state that the business community was going through a transformation and felt able to argue against the central authority. For someone to stand up in the mid-1990s against the powerful Minister of Interior was a courageous act. This resistance and the negotiations that followed with the palace and the Minister of Interior meant that the private sector acquired a new role for itself which was also recognized.[377] However, the new role of CGEM was not one conquered by the CGEM, but came about as a defensive reaction to a state-led campaign.

The campaign ended in June 1996 when the CGEM signed a 'gentlemen's agreement' with the powerful Minister of Interior, Driss Basri, which provided for an amnesty in return for a promise by CGEM to work on creating a more ethical environment within the business community.[378] A close analysis of the main component of the agreement that was signed in June 1996 between CGEM and the Minister of Interior gives a good picture of the changing dynamics in the state-business relationship. Basically "the central power promised to end the campaign and to revise the training programs for judges in order to guarantee the independence of the courts. At the same time, the interior minister announced the introduction of commercial courts. These pledges were given in exchange for acceptance of new technical measures to supervise and control the import/export business, and the promise of CGEM to fight corruption within its own ranks".[379] In addition, the firms agreed to pay up (new) taxes. The agreement covered all the enterprises, including big conglomerates like

[377] Ibid., 24
[378] Ibid., 14.
[379] Ibid., 22.

ONA.[380] The fiscal aspect had significant consequences for the state. Instead of increasing by 9% as forecasted by the Ministry of Finance, government revenues went up by 23%.[381] Furthermore, the state would consult CGEM on matters regarding transparency and the rule of law. The agreement in a way institutionalized closer consultation between the government and the private sector. In addition, a promise was made to reduce administrative barriers for doing business, while CGEM would step up its disciplinary efforts among its members.[382]

The campaign and especially this agreement reached between CGEM and the Minister of Interior has been viewed as redefining the relationship between the state and the private sector. By allowing CGEM to discuss the issues during a personal meeting with the king and the Minister of Interior, meant that CGEM was being granted a place within the decision-making process. From now on CGEM was to be consulted closely in matters pertaining the economy, while CGEM displayed a less antagonistic attitude towards the state.[383]

In conclusion, King Hassan II ensured a smooth transition by allowing more political party activity and giving them government responsibility. In addition, the islamist movement was fragmented by co-opting one faction into formal politics. Coinciding with these political steps, Hassan II prevented the rise of autonomous economic forces. This was mainly achieved by assuming a stronger role in business through ONA, while also subjugating the private sector through an arbitrary anti-corruption campaign, thereby ensuring that CGEM, the formal representative organization gained in terms of becoming a partner of the state, but in a subordinate role. By doing so, King Hassan II laid the foundation for a political economy which his son would build upon.

[380] Hibou, "Fiscal Trajectories in Morocco and Tunisia", 204.
[381] Denoeux, "Understanding Morocco's," 118.
[382] Ibid., 106.
[383] Sater, "Civil Society," 21-22.

5.4 The Political Economy of Morocco During the First Ten Years of King Mohamed VI

The first part of this section provides an overview of the evolution of two forces, the newly formed Islamist PJD and a new party, the Party of Authenticity and Modernity (PAM), linked to a former classmate and current advisor of King Mohamed VI, Fouad Ali El Himma. The overview is focused less on the fortunes and issues facing these parties, but rather on the groups in society they seem to represent. As such, the emergence of these two political forces illustrates how the king and his entourage are able to create and maintain links to different groups in society. The second part of this section will delve deeper into how the various business groups expanded their position in the privatization process and how this in turn affected state-CGEM relations.

5.4.1 Political Developments During the First Decade of King Mohamed VI

Upon ascending the throne in 1999, King Mohamed VI inherited the *alternance* government under El Youssoufi. This government remained in place until the 2002 elections. The general view on the performance of this government remains mixed. Although an attempt was made to focus more on social issues and economic well-being, the *alternance* government failed to deliver. This can partly be explained by the nature of politics in Morocco during the tenure of El Youssoufi. Ultimate power rested for a large part outside of the reach of political parties. Secondly, the *alternance* government was made up of many parties which made it

difficult to agree on a political action programme. Often these parties were themselves weak.[384]

The first few years under King Mohamed VI were generally perceived as positive. Numerous initiatives were positively received. Among them were the changes in the family code in 2004, which strengthened womens' rights further. In addition, the house arrest of the leader of the main Islamist movement was lifted in 2000. The king also ordered a commission to look into the atrocities that were committed under his father. Although no perpetrators were brought to justice, the roadshow of the commission which was televised strengthened the impression that a new page was being turned under this king.

The king appointed a technocratic prime minister, Driss Jettou in 2002. This trusted figure of the palace set in motion many initiatives, strategies, and projects. The king made clear with this appointment that he was putting emphasis on executive authority, in the sense that the government needed to deliver. His appointment was endorsed by the business community, partly due to his past as a former head of the textile and clothing association, his stewardship of the holding company of the king and his tenure as minister of industry, finance as well as interior in previous governments. However, his appointment signaled a change, in the sense that the king did not appoint a prime minister based on the outcome of the elections.[385] As such, he seemed to emulate his fathers' approach in appointing trusted technocratic figures at the head of government. Political opening became less certain after the Casablanca bombings of 2003 in which extremists from Casablanca's slum attacked various sites in Casablanca killing 45 people. Dealing with this threat became a more important priority than political liberalization.

[384] Storm, *Democratization,* 123-126.
[385] Sater, *Morocco,* 77-78.

After the tenure of Driss Jettou ended in 2007, the king did however appoint a prime minister from the largest party, the Istiqlal. The new head of government, Abbas Al Fassi, came from the Al Fassi family of the independence movement leader. He had served as an ambassador to Paris and was therefore a trusted regime insider. It was thus no surprise when Al Fassi announced upon becoming prime minister that his program was the kings program.
As such, political liberalization seemed off the cards for the foreseeable future. What did take place was the continuous fragmentation of the political field by allowing yet another party to emerge, the PAM. As will be shown below, this was interpreted as a counterbalance to the Islamist PJD.

5.4.1.1 The PJD consolidates its position

Having gained nine seats in the parliamentary elections of 1997, the PJD set about increasing its profile, both through parliamentary activity as well as through grass root mobilization. This resulted in a strong victory in the parliamentary elections of 2002, winning 42 seats which meant that it became the third largest party. This is the more remarkable given the fact that the PJD restricted fielding candidates to just 60% of electoral districts. This self-imposed restriction was deliberate in order not to grow too quickly which could lead to a regime reaction and subsequent clampdown. The candidates which were fielded were perceived as competent and were very often university educated.[386]

Interestingly enough, the PJD did not perform well in the 2007 parliamentary elections. It did not win the majority of seats in 2007, but it did win the highest percentage of votes. In terms of seats, it went from 36 to 40. Part of the explanation lies in the fact that the changed political climate after the 2003 Casablanca bombings negatively affected the PJD. Another explanation could be found in the fact that the PJD was increasingly seen as a 'normal'

[386] Willis, *Politics and Power,* 182.

party by the voters. Given the increased apathy towards the political system in general, this meant that the PJD suffered from this voter apathy as well.[387]

In terms of the support base it is of importance to note that 23 of the 2007 seats were won in four major cities, Tangier, Rabat, Casablanca and Sale. Winning seats in these cities illustrates how much the PJD has become the dominant party among middle-class voters. In fact, it meant that the PJD slowly replaced the USFP as the party representing the urban middle-class. This is noticeable in the disappointing results of the USFP during the 2007 elections. The USFP ended behind the PJD, going from 50 to 38 seats. The explanation for the disappointing results of the USFP can be found in their participation in government and the lack of delivering to their urban middle-class support base. In contrast, the PJD reaped the benefits of its opposition stance, its focus on fighting corruption, and the dominance of socio-economic issues in their election program. This appealed mostly to voters seeking a party based on ideology rather than the traditional patron-client networks most parties utilize in attracting voters. The PJD was popular among teachers and civil servants, but less popular among the business class and the intelligentsia. Lacking a strong network among rural notables and its ideology-based election strategy rendered them less popular in the rural areas. It is these areas were votes are delivered on the basis of the influence of notables in their 'fiefdoms'. Campaigns based on issues were less relevant in such areas than having the right notable on the list.[388]

A comparison of the election results of the PJD in 2002 and 2007 reveals interesting aspects regarding their support-base. The typical PJD support-base tends to be among the urban, better educated, but not necessarily wealthier than average, with a larger likelihood of

[387] Ibid., 183.
[388] James Liddell, "Notables, Clientelism and the Politics of Change in Morocco," *The Journal of North African Studies* 15:3 (2010): 8-9.

public and privately employed voting for the PJD than the self-employed. In 2007, the PJD lost in some of its strongholds. This was partly explained by the different approach the PJD took in the election campaign of 2007. The PJD placed less emphasis on identity and liberalization issues and focused on more development and management issues like improving local governance and social service delivery. This appealed more to middle class voters. In 2007, the PJD appeared stronger in cities like Rabat and Kenitra. However, it won mostly in wealthier areas or districts categorized as average regarding education and wealth. Most notably, it lost among the less-well off areas in cities like Casablanca, areas in which it did well when it campaigned on a less technocratic platform in 2002.[389]

Essentially this means that there was a vacuum left by the PJD among the rural and poorer urban areas. What is more important is the fact that the less well off in urban areas were not properly represented opened up the possibility for the king to position himself as the king of the poor. The king became increasingly associated with socio-economic welfare projects. In chapter 6, one of these initiatives, Cities without Slums, will be discussed in more detail. The focus on socio-economic issues was obviously partly done to counter the breeding ground for extremists. However, it was a politically strategic move to tie the poor to the support base of the king. An implication of how this trickles down in policymaking will be discussed in chapter 7 when the pharmaceutical sector is analyzed. In order to fill the vacuum a new party was established in 2008.

[389] Wegner, Eva and Miquel Pellicer. "Hitting the glass ceiling: The trajectory of the Moroccan Party of Justice and Development," in *Islamist Mass Movements, External Actors and Political Change in the Arab World*. Research Report published by International Idea, Centro Studi di Politica Internazionale, and Istituto Affari Internazionali, 2010, 34-35 and 42.

5.4.1.2 The rise of the PAM

In 2008, a new political party emerged. The main reason that this new party was taken seriously was because of the involvement of Fouad Ali El Himma, former deputy Minister of Interior, former classmate, and current advisor of King Mohamed VI. It is not fully clear why this party came into existence at that particular moment. Part of the explanation could lie in the fact that it was perceived as a force to counterbalance the PJD. In the 2007 elections, the PJD showed it had become a serious political force. The strong verbal attacks by the PAM towards the PJD were illustrative. The PAM emphasized the need for a separation between politics and religion and was against the instrumentalization of religion. At the same time, it advocated a more authentic Moroccan form of Islam[390]. In doing so, the PAM tried to undermine any monopoly claim the PJD could lay on Islam. In fact, the PAM in essence became a defender of the kings position as Commander of the Faithful.[391]

Another explanation was sought in the abysmal voter turnout in 2007. Just 37% turned out to vote in an election which was internationally observed and deemed fair. Of those 37% voting, almost a fifth turned out to be doing so through spoiled ballots. A new political party, backed by a close confidante of the king, could potentially revive political life in Morocco post-2007.

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[390] "The choice of name, Authenticity and Modernity, was a clear indication that it was continuing the same monarchical programmatic line of controlled economic development and preservation of the cultural fabric of society. There is an old 1959 photograph of late King Mohamed V on a tractor in traditional Moroccan dress. At the time it was a display of advancement to introduce tractors in the agricultural area of Larbaah El Gharbi. Wearing a traditional *djellaba*, it was as if the head of the new independent kingdom wanted to reassure the population that modernity can be coupled with keeping tradition alive. It was in the same vein that his son, the late King Hassan II, opted for the slogan al-asala wa al-mu'asara (authenticity and modernity) when he set about reforming the political scene. It was thus no surprise that the new party has chosen to pursue a similar rhetoric, symbolized by the choice of the tractor as party symbol. The reference to authenticity was at the same time needed to ensure that the existing political parties were not outflanked by the PJD. It was an effort to wean away any monopoly claim the PJD implicitly puts on being the guardian of traditional values." Farid Boussaid, "The Rise of the PAM in Morocco: Trampling the Political Scene or Stumbling into it?," *Mediterranean Politics* 14:3 (2009): 415.

[391] Ferdinand Eibl, "The party of authenticity and modernity (PAM): trajectory of a political *deus ex machine*," *The Journal of North African Studies* 17:1 (2012): 13.

Evidence of the latter explanation can be found in the proclaimed goals of the PAM and its constituent member groups. These groups were brought together under the leadership of El Himma. He resigned as deputy Minister of Interior and stood for election in his home town of Rhamna in 2007. After winning a seat in parliament it was evident that many parliamentarians wanted to work with him. This led to small parties and independents being grouped together under the leadership of El Himma. Before the creation of the PAM, a movement came into existence in January 2008, the Movement for all Democrats (*Mouvement pour tous les Démocrats*, MTD).[392] The stated goals of this movement, which were later taken up by the PAM, were the mobilization of the elites. The purpose was to reduce the distance between citizens and the elites. To achieve this, a 'politics of proximity' was called for. This resulted in a regional roadshow by the MTD which were well-attended. As such, the MTD can therefore be seen as an attempt to address the voter apathy which became apparent in the 2007 parliamentary elections.[393]

In the summer of 2008, the PAM was created and joined the by-election which took place in September 2008. Fielding mainly civil society activists and intellectuals turned out not to be winning strategy. The PAM won only one seat of the seven seats that were up for contest in the by-elections. This seat was won by a notable with a wide social network.[394] The PAM took several steps in order to recover from this setback and to prepare for the local elections that were scheduled for June 2009. The leadership was changed in its first congress in February 2009. A new secretary general, Cheikh Baidilah[395], was elected. In addition, the PAM sought a parliamentary alliance with the RNI. Thirdly and most importantly, the PAM

[392] Liddell, "Notables," 12.
[393] Ferdinand Eibl, "The party of authenticity and modernity (PAM): trajectory of a political *deus ex machine*," *The Journal of North African Studies* 17:1 (2012): 5.
[394] Liddell, "Notables," 12-13.
[395] Baidilah comes from the southern provinces and proved to be crucial link to this constituency. He was a former minister of Health and a former governor under king Hassan II.

aggressively sought the inclusion of notables. This strategy included the recruitment of parliamentarians from existing parties, of which mainly the UC and the MP suffered. Although this antagonized many parties, the strategy paid off. The PAM was the clear winner of the local elections of June 2009. They not only were able to field the highest number of candidates, but also won the highest percentage of votes, 21,69%. The party was most successful in the rural and semi-urban areas.[396] In addition, the PAM won most seats in the renewal of a third of the second chamber of parliament and the PAM secretary general was elected as chairman of this second chamber.[397]

Of interest for this thesis is the profile of the PAM leadership. Which groups in society were mobilized through the creation of PAM? The leadership is mainly composed of three groups, civil society activists, technocrats and entrepreneurs. Most of the civil society activists have a leftist and human rights background and some of them were even political prisoners in the 1970s. The second group is mainly composed of a new generation of technocrats, mostly foreign educated. These technocrats thrived during the reign of King Mohamed VI in implementing large-scale development projects. Many have an engineering and financial background[398]. The third group which has been a constituent member group of PAM are the entrepreneurs. There have been several attempts by successful businessmen to set up parties and get elected. Some succeed, but they ended up heading very small party factions. Examples are Ali Belhaj and the former CGEM president Lahjouji. However, these men have found a place in PAM. Belhaj was even tasked with managing the regional sections of the PAM.[399] As such, the "PAM contributes directly to the renewal of Morocco's elite. It provides three

[396] Liddell,"Notables," 13.
[397] Eibl, "The party," 6-7.
[398] Mustapha Bakkoury is a perfect illustration of this generation. Educated in France, he spent most of his career at a bank. In 2001, he moved to head the state pension fund, CDG. Since 2009, he has been tasked with managing the new solar energy agency. He was part of the MTD and the PAM from the start in 2008. In 2012, he was elected secretary general of the PAM.
[399] Eibl, "The party," 8-11.

aspiring elite groups, i.e. civil society actors, entrepreneurs, and technocrats, with a platform to organise their political interests. It allows these groups to gain direct access to the state and voice their demands. Given their considerable social and economic capital, they may well represent the competent elites the king wants to draw on for his modernisation agenda."[400]

The MTD, and later the PAM, were focused on local development and participation. Regionalization, participation and local development were the main buzzwords which are part and parcel of the program of this new movement and party. This meant that the message coming from the palace of increased modernization and socio-economic development found a receptive ear with the members of the PAM and the MTD. The emphasis of socio-economic development since 2005 has been carried out in a top-down fashion, but with the opportunity of local participation. As such, the PAM focused not necessarily on politics, but on the implementation of policies. The civil society activists, technocrats and entrepreneurs were well-positioned to carry out this more technocratic and managerial development agenda.[401]

While this counterbalancing of the political power of the PJD was taking place, important developments occurred within the economic sphere through the continuous strengthening of the ties between the main business groups and the continuous subordination of CGEM.

5.4.2 Business Groups, mergers and privatization

In this section, a short overview is provided on how privatization provided a new source of patronage for the regime. Although privatization was announced in the late 1980s, it

[400] Ibid., 16.
[401] Ibid., 11-12 and 17.

only really took off in the late 1990s/early twenty first century. It gave further rise to mergers and the strengthening of business groups.

In order to strengthen the supply side of the economy, the government had to privatize and to open up the economy to outside competition. One of the signs that the government was serious about the structural adjustment program was the creation of a Ministry of Privatization and the adoption of law 39-89 in 1989. King Hassan II noted in a speech a year earlier that the expanding public sector bore the signs of unacceptable inefficiencies and that the private sector should become the main engine of growth. A list of 112 companies to be privatized was compiled. If carried out, this program would affect 40% of state holding if one includes the indirect links state companies had with other firms. The aim was to complete the program by 1995.[402]

Besides the usual economic arguments used to defend privatization, this specific policy served a political purpose as well, especially if seen in the Moroccan context. The monarchy saw "an opportunity for cementing links between the monarchy and the dominant elites, since they are the groups most likely to have the economic and financial surplus to benefit from privatization".[403] The list included many companies that were attractive to private investors, illustrated by the fact that 61 of the companies did not need state subsidies to survive. The modes of privatization employed by the state seems to suggest that they implicitly favored privileged investors to buy these attractive state enterprises. For example, the stipulation that potential buyers from the region in which the firm is based would get priority only encouraged concentration of wealth within the industrial areas of Casablanca-Rabat where most firms are based and where also the wealthiest individuals and business groups are based.[404]

[402] Denoeux and Maghraoui, "The Political Economy," 61.
[403] George Joffé,"The Political Economy of Privatization in Morocco," *Moroccan Studies* 1:1 (1991): 55.
[404] Ibid., 63.

One of the early banks put for sale was BMCE. As noted in chapter 2, BMCE was created in 1959 and remained largely publicly owned until it became available for privatization in 1991. During the latter part of the 1980s, it was managed by Jouahri after he oversaw the critical period of structural adjustment as finance minister (see chapter 4). He restructured the bank while also heading the bankers association. His previous experience at the ministry of finance and before that at the central bank, and his position as the CEO of one of the largest banks in Morocco rendered him an ideal candidate to manage relations of the Moroccan banking oligopoly.[405] This bank was acquired by Othman Benjelloun in 1995. He also increased his stakes in insurance and bought together with foreign partners a mobile phone licence in 1999.[406]

Another important merger occurred in the banking sector in 2003. In late 2003 an agreement was reached between BCM and the Kettani family, which basically meant that BCM was taking over Wafabank . The merger was finalized in 2004 and a new giant was created and renamed Atijariwafa bank . The palace, through ONA, and the Kettani family business interests were now formally linked through the banking sector as well.[407]

The example of these banking activities of two major groups Benjeloun and ONA/SNI is illustrative of the continued dominance of the groups that had been increasingly acquiring a prominent position within the Moroccan political economy. The fact that the expansion of ONA/SNI continued under King Mohamed VI points to continued reliance of maintaining a strong position within the economic field. This provides opportunities to forge alliances and to avoid an independent economic group from emerging.

[405] Clement M. Henry, *The Mediterranean Debt Crescent: Money and Power in Algeria, Egypt, Morocco, Tunisia and Turkey* (Gainesville: University Press of Florida, 1996), 144.
[406] Rami, "Esssai," 126.
[407] Vermeren, *Le Maroc,* 283.

5.4.3 Bringing CGEM Back into the Fold

The basic structures of the political domain did not change during the first decade under King Mohamed VI. The two major changes were the increased role of the PJD in parliamentary politics and the rise of the PAM. The technocratic nature of the Jettou government coincided with a further consolidation of business groups through the continuous privatization process. The dominance of ONA was becoming even more visible in the first decade of the twenty-first century. Recall that CGEM was becoming a more important partner for the state, but in a subordinate role. The remainder of the section will show how CGEM continued in this role and was even brought closer to the political and economic power centers in Morocco.

In the years immediately after the 1995-1996 anti-corruption campaign, CGEM was widely seen as a legitimate force for change. The positions and publications by CGEM were taken seriously, especially by the media.[408] However, it seems that the more independent role of the CGEM was subsequently undermined by a strategy to recapture this association. The replacement of Lahjouji with Hassan Chami in 2000 was a sign that old times might return. Chami was part of the old pool of former officials, having been minister of public works in the seventies, director of the important *Office Chérifien de l'Exportation* and a close friend of Driss Jettou, Prime Minister between 2002 and 2007. Although this background turned out not to be in his favor during his 2000 campaign, especially not among the emerging entrepreneurs, he still got elected. One of his main backers was Driss Jettou, at the time of elections he was heading the royal holding SIGER. Chami got reelected in 2003. Jettou, by then the technocratic Prime Minister, needed CGEM for his new labour law and was thus in favour of Chami. To

[408] Sater, "Civil Society," 25-26.

ensure the election of Chami, he invited the representatives of the textile and clothing sector (AMITH), who were in need of government support, and they supplied the necessary votes, against the votes of the main business groups. [409]

The displeasure of the business groups with the election of Chami became apparent during a meeting in Tangier right after the re-election of Chami in July 2003. The meeting was attended by the CEO's of the largest enterprises in Morocco (Abdeslam Ahizoune, Maroc telecom, Mustpaha Bakkouri, CDG, Bassim Jai Hokimi, ONA, Othmane Benjelloun, Finance.com, Aziz Akhennouch, Akwa group, Mustapha Amhal, Oismine, Mohamed Hassan Ben Salah, Holmarcom, and Abdelhak Bennani, Wafabank) and by the Private secretary of the King, Mounir Majidi. Except for Bennani, all had voted for the opponent of Chami during the elections. The issues raised were the need for change at CGEM in the short run with a possible revision of the statutes leading to a change in the voting procedures giving more weight to companies according to their size.[410]

Chami felt the pressure and in September 2003 installed a commission for the conglomerates, to meet every three months and oversee dossiers and set out strategies. Karim Lamrani, Saaid Kettani (Wafabank) and Mustapha Amhal accepted to become members of the commission. Other CEO's of conglomerates would send their representatives. [411]

It was clear Chami was under pressure given his frank declaration that he wanted to work with people he knew "to implement my program and not that of my opponent"[412]. However, he managed to provoke the wrath of the authorities during his second tenure. Chami attacked the governance system in Morocco in 2005, thereby attempting to carve out a more

[409] Economie & Entreprise, September 2003.
[410] Ibid.
[411] Ibid.
[412] Ibid.

autonomous and confrontational role for CGEM. His main point was that the government was hampered in its functioning due to the undefined lines of responsibilities and the continuous interference from outside the government. It seems the royal entourage interpreted this as an indirect reference to the "Kings businessmen".[413] As a consequence, he came under fire, personally as well as through his business interests. Chami was perceived as being too political, something CGEM tried to refrain from.[414] He was soon replaced at the election in 2006 by someone closer to the traditional elite and the large conglomerates, especially ONA. The new leader, Moulay Hafid Elalamy, was backed by the business interests[415] close to the palace and in the first uncontested election since 1988 became the new CGEM leader. His vision for the organization was made clear during and after his election campaign; the CGEM should stop from taking confrontational and political stances.[416] In essence, CGEM needed to be apolitical, a position that was pushed for in the 1980s under Guessous (see chapter 4).

With Elalamy at the helm of CGEM, a new page was turned. At the price of gaining better access to the government, CGEM gave up its more confrontational stance of the 1990s. As noted earlier, Elalamy appointed members close to the state apparatus (like Terrab who heads the important *Office Chérifien des Phosphates*, or Kettani of the biggest bank Attijariwafa) and purged civil society and the more politically minded members of the various commissions who were planted there during the time of Chami and Lahjouji. Most of the discussions with the government, on for example taxation or the government budget, were done behind closed doors, and no open wars were being waged through the media. CGEM took a more pragmatic approach, avoiding clashes with the state for the sake of just proving its autonomy. In return, CGEM was granted the much sought status of *association d'utilité*

[413] Denoeux, "Corruption in Morocco," 147.
[414] Interview with CGEM vice president Hamoumi, 3/5/2011.
[415] For example, he was able to secure funding from Atijariwafa bank in one of the most important investment deal of his business career.
[416] Denoeux, "Corruption in Morocco," 147.

publique. Among the benefits of such a status granted by the Ministry of Interior was the possibility to raise funds, own property and accept donations.[417] Although at first sight this could be seen as a way to strengthen the financial basis of the CGEM and thus make it more independent, it in effect meant an even more dependent association. An association depending only on its membership fees would more likely remain stay closer to the need of its members than an association that receives money from different (political) sources.

The return of the importance of the large business groups to CGEM, who had felt estranged in the years before, was illustrated by president Elalamy when he admitted that: "yes, I needed ONA, Holmarcom, CDG, Akwa and all the other influential groups in my negotiations with the government"[418]. The influence of these holdings was made visible through their donations of around 34 million dirhams to CGEM[419]. This fitted into the new profile of CGEM. The new funds enabled CGEM to commission studies on which recommendations were based for government action. There continued a need to make CGEM more representative of small and medium sized enterprises.[420]

The 2009 election of Elalamy's successor proved again the large influence of especially ONA. Chaib, the outgoing vice-president had been the sole candidate. But at the very last minute, 40 minutes prior to the filing deadline, Mohamed Horani, the president of the IT firms association, put himself up as a candidate. His late filing was due to the fact that he initially did not meet the stipulations of CGEM to be a candidate. His own IT firm was not a direct member of CGEM. In order to solve this administrative problem, ONA stepped in and made him director general of one of its subsidiaries. Chaibi subsequently retracted his candidacy, apparently

[417] Denoeux, "Corruption in Morocco," 147.
[418] Economie & Entreprises, May 2009, 20.
[419] In full view for any visitor, a large sign hangs in the hall of the CGEM headquarters thanking these conglomerates for their donations.
[420] Interview with CGEM vice-president Kettani, 15/5/2009.

because he did not want to run against a candidate who was supported by the royal holding.[421] ONA justified its action by arguing it did not want a repeat of the 2006 uncontested election. However, its very action did at the end lead to an uncontested election for the second time in a row. Horani got elected, but with a low participation rate, 2959 votes on a total of 8634 eligible votes. In 2006, also with only one candidate, 4054 votes were cast.[422] With Horani, CGEM had at its helm a self-made businessman, responsible for one of the success stories in the Moroccan IT sector. Someone with an international outlook who was a strong proponent of strengthening the international competitiveness of the Moroccan private sector, primarily through the stimulation of innovation. An objective close to the goals set by the CEO of ONA of nurturing national champions who can compete in the global economy. Horani continued the collaborative relationship between CGEM and the government. During his presidency, Horani further institutionalized the relationship with the government. In addition, he increased efforts to cooperate with the trade unions.[423] He also attempted to deal with non-payment by members of CGEM. The exclusion of non-paying members, did hurt the financial position of CGEM and it was not made up by donations from large business groups as happened during the tenure of Elalamy. There was also some criticism regarding his lack of initiatives. Most of his tenure consisted of putting into action plans that were already in place and signed with the government by the previous leadership of CGEM.[424]

The anti-corruption campaign of 1995-1996 served the purpose of denying the private sector from following a more autonomous and critical path and brought in line an association that attempted to become an autonomous source of power. It seems the king and his advisors used a dual strategy to prevent an autonomous private sector from emerging as a result of the economic liberalization measures. First, CGEM was strengthened in order to push through the

[421] L'Economiste 11 and 12 May 2009.
[422] TelQuel, 30 May 2009.
[423] Interview with Former CGEM president Mohamed Horani, 11/06/2014.
[424] Telquel, 15/05/2012.

much needed reform and to break the opposition against economic reform. With the anti-corruption campaign, the king, through the Minister of Interior, demonstrated the reach he still had and co-opted part of the new entrepreneurs. CGEM was thus depoliticized through a gradual change in leadership. In a way it went back to its more apolitical stance of the eighties.

5.5 Conclusions

The vital issue that prevents an autonomous private sector from organizing itself through CGEM lies in the structure of the private sector in Morocco, which is largely based on a few holding companies dominating the economic field. Smaller company members of CGEM acquiesce in their subordinate role because a CGEM with these large groups can more effectively lobby for cross-sectoral issues than a more politically militant CGEM. Having found this balance with the state, it is unlikely that the regime will allow an estrangement from the private sector which it badly needs for its modernization drive.

The interlinkages created through various business groups, especially in the banking sector meant that the monarchy was able to exercise considerable control over the private sector. Privatization, like Moroccanization, proved a useful tool for co-opting economic actors. The delisting of ONA-SNI from the stock exchange in 2010 and the subsequent gradual selling of shares in its various companies can be seen as a welcome sign of the monarchy loosening its grip on the economy. However, the fact that investments are now difficult to trace provides opportunities for more patron-client activity outside the view of the general public.

One can conclude that the reign of King Mohamed VI bears many resemblances with his father. This is not only visible in the economic realm, but also in the political domain where important segments of society are given a voice through the co-option of the Islamists and the

emergence of a new party. However, voter apathy seems to decrease the value of formal politics. But the method of co-option and fragmentation remains the preferred tool for the monarchy in incorporating the voice of a variety of segments in society. The next two chapters will deal of how these political developments interact in concrete policy domains of slum upgrading, industrial upgrading and the affordability of medicine.

6. Redeploying the State in Alliance with the Private Sector

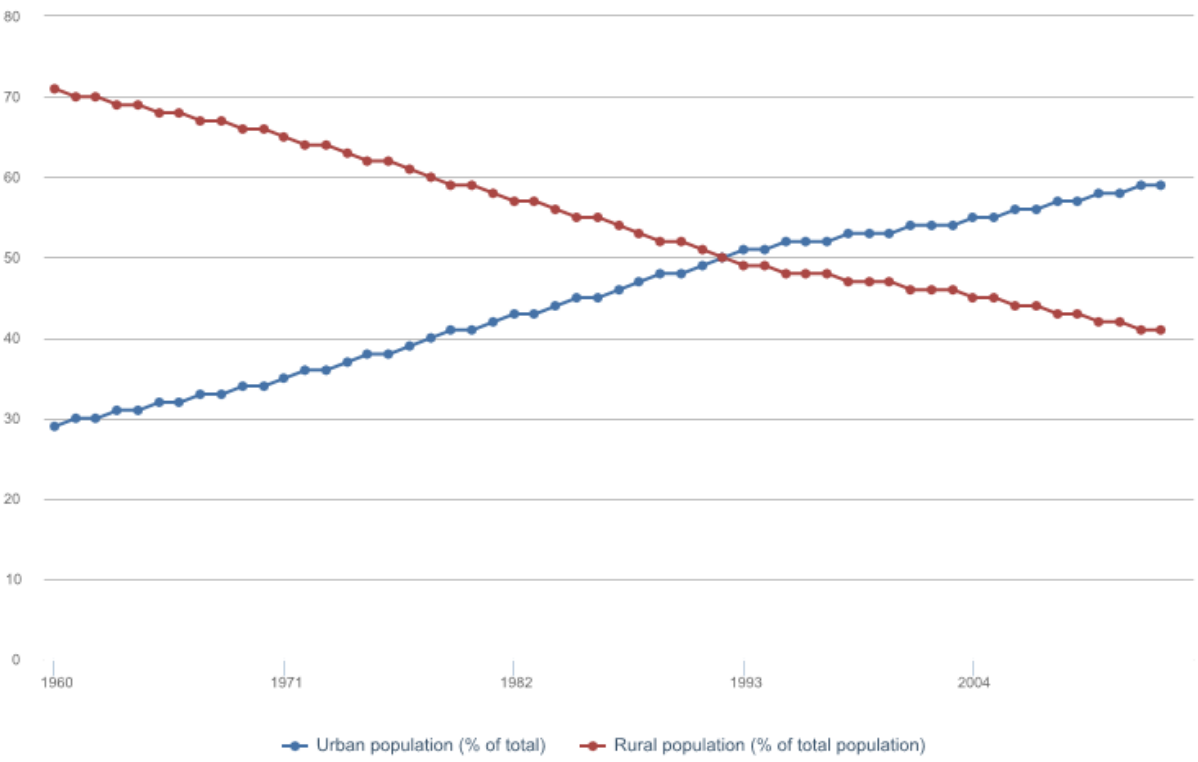
6.1 Introduction

In the previous chapter, I analyzed how the transition was achieved between King Hassan II and his son, stressing the remarkable continuity when it came to state-business relations. Privatization has strengthened the relationships between business groups, which led to the consolidation of the concentrated nature of the formal private sector in Morocco. Thus, gradual political opening and the emergence of new political factions did not coincide with the growth of autonomous economic loci of power. The cross-cutting coalition on which the regime was based were actually extended during the first decade of the reign of Mohamed VI. This was largely done by changing the role of the state. While maintaining a dominant actor in fostering development, the fiscal constraints meant that the state relied and formed alliances with the private sector in order to perform certain state functions. This created rent-seeking opportunities which paradoxically strengthened even further the links between the top level business actors and the state. However, at the same time, the private sectors' financial resources redirected through state incentives ensured that different poorer segments in society were reached. This chapter will analyze in detail two initiatives as an illustration of the new mode of economic governance during the first decade of the twentieth century. The first initiative is focused on the Cities without Slums program, which targets the poor in the urban areas, while the second initiative is about industrial upgrading in order to provide jobs for the urban masses. I will analyze the example of *Plan Emergence*, an industrial upgrading programme launched in 2005, and how this programme supports the textile and clothing sector.

6.2 Morocco's Cities without Slums Programme

As shown in earlier chapters, the stability of the monarchy rested on the alliance struck between the monarchy and the rural areas, especially the rural notables. However, increasing urbanization meant attention was diverted to creating new links between the monarchy and the urban areas. By the mid-1990s, it was clear that the old arrangement on which the stability of Morocco rested needed serious reconsideration. As the graph below shows, by 1993, the majority of Moroccans was living in urban areas.

Graph 6.1 rural-urban population in Morocco



Country : Morocco
Created from: World Development Indicators

The king and the government placed more emphasis on human development, especially after the Casablanca bombings in 2003. This was largely done through the National Initiative for Human Development (known by its French acronym – INDH), which was launched

in 2005. It was given the highest importance by the king himself. The aim was to reach the Moroccan poor through projects in education, health care and infrastructure. For the first five years 10 billion DH were allocated. Implementation was entrusted to the Ministry of Interior and the local governors. Despite the large budgets and the kings' investment in this project, Morocco continued doing poorly on international human development indices. In that regard, this program has not delivered on its promises.[425] However in one area there seems to be some progress which is slum upgrading. It is therefore of interest to see which mode of governance was chosen in slum upgrading that can account for its achievements.

As discussed in chapter 4, over the course of the 1970s, the loyalty of the (lower) middle class was ensured through increased food and energy subsidies, government jobs, and social spending. However, by the 1980s, the negative effects of structural adjustment were felt by many in the slums and the poorer neighborhoods of large cities like Casablanca. The 1981 Casablanca riots, the 1984 riots in Marrakesh and the northern cities of Nador, Tetuan and El Hoceima, and the 1990/1 riots in Fes were a stark reminder that urban unrest posed a serious security risk and could destabilize the country. Of particular importance was the growth of slums around Morocco's main cities, aggravated by rural-urban migration.

I argue in this section that the state changed its role regarding urban policy. Whereas after the riots of 1981 in Casablanca, the state approached the perceived security risk of slum growth through a predominantly security lens, the response after the 2003 Casablanca incidents was markedly different due to the emphasis placed on participation and the betterment of the housing conditions of slum residents. The mode of governance of the state changed accordingly. While the dominant mode was one in which the state took upon itself the construction of houses and thus bore the financial burden, in the post-2003 period, the

[425] Sater, *Morocco,* 108-109.

state acted more as an enabler for the private sector. This was partly necessitated by the financial constraints under which the state operated in the post-structural adjustment period. Therefore, the private sector was called upon to construct the houses. In order to reduce the risks for the private sector, a range of financial incentives were offered through tax benefits, preferential treatments and guarantee schemes. As such, this provided the private sector with rent-seeking opportunities which the politically connected were able to reap the benefits of. For the regime, it provided in turn an opportunity to co-opt part of the businessmen who emerged in the post-Moroccanization period. At the same time, the emphasis the king put on slum upgrading and the flow of resources to slums enhanced the popularity of the king among slum residents. The argument is developed through a process tracing of the emergence and implementation of the Cities without Slums programme. The section compares the response to the 1981 Casablanca riots and the 2003 Casablanca bombings in order to show how the state changed its role to reach the poorer parts of society while at the same time created the conditions for the meteoric rise of one of Morocco's richest men, Anas Sefrioui[426].

6.2.1 Government Efforts to Eradicate Slums after the 1981 Casablanca Riots

In order to counter the threat of urban unrest, new control measures were put in place after the riots of 1981. The Ministry of Interior took the lead and within a month, Casablanca had been divided into five administrative prefectures. These fell under the newly

[426] Anas Sefrioui comes from a Fassi bourgeois family. Born in 1957, he left high school without a degree. He joined his father's enterprise specializing in ghassoul (clay used for bathing). His trajectory is illustrative of many successful business men born around the time Morocco became independent. During his later teenage years he moved from Fes to Casablanca to get a training by his uncle. This move to Casablanca was performed by many who saw new business opportunities in the economic powerhouse of Morocco. He then moved to Tangier in the early 1970s. As shown in chapter 4, the Moroccanization policy enabled businessmen to make their first successful step in the private sector. Sefrioui was no exception. Even though he was still a teenager, he managed to get hold of companies in the paper and wrapping industry in several cities, including Agadir and Tangier. His father provided the necessary bank guarantees. Following his successful venture into the paper and wrapping industry, Sefrioui entered a related market segment, the cement packaging industry. By the end of the 1980s he controlled 50% of the Moroccan cement packaging industry. Interview with Anas Sefrioui, Telquel, 17/10/2008 and Jeune Afrique, 14/05/2012.

created *Wilaya*[427] of Greater Casablanca, headed by a royally-appointed *Wali* (governor), who answered directly to the Ministry of Interior. Besides the creation of this new administrative unit, new agencies were set up to deal specifically with urban control and planning. In 1984, a government agency was created to deal with slums, the *Agence Nationale pour l'Habitat Insalubre* (ANHI). In addition, a second urban planning agency was created specifically for Casablanca, the *Agence Urbaine de Casablanca* (AUC). What makes this agency particularly interesting is the fact that its director also bears the title of governor and is therefore appointed by the king. Like ANHI, the AUC fell under the responsibility of the Ministry of Interior. Similar agencies were set up in other Moroccan cities. From 1985 onwards, urban planning became a prerogative of the Ministry of Interior instead of the Ministry of Housing and Urbanism.[428] Hence, urban planning increasingly became a matter of security rather than socio-economic development.

By the mid-1990s, King Hassan II increased the focus on the pressing social housing shortage. In 1995, he launched a plan to create 200,000 new social housing units.[429] This opened an opportunity for Sefrioui to expand his business empire. His first venture into real estate took place in 1987, when he bought a piece of land and sold it on for three times the original amount. He set up his company, Groupe Addoha, in that same year.[430] Following the launching of king's housing initiative in 1995, the Minister of Interior ordered the local governors to implement the programme. In Casablanca, the governor found in Groupe Addoha a partner willing to take the financial risk. In return, the state provided fiscal benefits and

[427] A *wilaya* is a different administrative unit than prefectures and regions. Following the successful creation of the *wilaya* in Casablanca, many more were created resulting in a current 17 in total.
[428] The Ministry of Interior lost its responsibility regarding urban planning in 1972 when urban planning fell under the responsibility of a newly created Ministry for urbanism, housing, tourism and environment. Koenraad Bogaert, "Urban politics in Morocco: Uneven Development, Neoliberal Government and the Restructuring of State Power" (PhD diss., Ghent University, 2011), 186.
[429] L'economiste, 16/1/2003.
[430] Interview with Anas Sefrioui, Telquel, 17/10/2008.

support in the acquisition of land. The company successfully built new housing units in Salé.[431] Groupe Addoha also managed to build 2371 units in Casablanca. This successful venture caught the eye of the authorities and ensured Groupe Addoha of more contracts in the early 2000s.[432]

The operations of the state agency ANHI and the increased participation by private developers led to results in some areas. The work by ANHI was acknowledged internationally when, for example, Morocco received a UN prize in 1996 for its best practices in improving living conditions in urban areas.[433] However, despite the work done by the state agencies, slums continued to growth.

The increased focus on social housing led to a reorganization of ministries which coincided with the installation of the new *alternance* government led by the socialist former opposition leader El Youssoufi in 1998. During his tenure as Prime Minister between 1998-2002, urban planning in Morocco witnessed several changes. Most notable there was the transfer of power to the Ministry of Housing and Urbanism at the expense of the Ministry of Interior. It was reorganized and set out to draw up new urban policies. A distinctive feature of this phase was the open debate and participation of various stakeholders. This resulted in more attention being paid to the social dimension of urban planning. In addition, part of the reorganization was meant to decentralize the work on urban planning. This was aided by the new Communal Charter of 2002 which granted more powers to local elected councils.[434]

[431] Vermeren, *Le Maroc,* 293.
[432] Interview with Adjunct Director General Groupe Addoha, Telquel, 7/7/2006.
[433] United Nations Habitat, *Al Omrane: Leading Actor for Settlements Upgrading* (New York: United Nations, 2010), 1.
[434] Pascale Philifert, "Morocco 2011/2012: Persistence of Past Urban Policies or a New Historical Sequence for Public Action?," *Built Environment* 40:1 (2014): 74-76.

However, the Ministry of Interior continued to wield influence when it came to urban planning.[435]

Despite the creation of agencies for urban planning and the increased focus on slum eradication as well as its social dimension, problems persisted. This was mainly due to the financial constraints under which the state operated during the structural adjustment programme. The targets and spending on social housing were not met and slums were not eradicated- rather they continued to expand. This was most apparent in large cities.[436] Internal conflicts between government departments together with institutional inertia posed obstacles to government efforts to eradicate slums.[437] By 2003, almost 300.000 Moroccan households lived in illegal slums with an additional 400.000 living in legal but poor housing conditions. This total amounts to around 11% of the population. What was furthermore striking is that almost 800.000 houses were unoccupied in 2004. Thus, it was not necessarily a shortage of built apartments which led to more than a tenth of the population living in poor and often illegal housing.[438]

In order to improve housing conditions for the poor, it was also clear that there was a need for financial support of poor households, many of whom could not afford a house. In addition, inadequate regulation and institutional fragmentation led to a complex bureaucracy in the social housing sector. Although the government succeeded in dismantling slums by the late eighties, it could not keep pace with demographic growth and subsequent growth of slums in the 1990s. Upon ascending the throne, King Mohamed VI made slum upgrading a national

[435] Koenraad Bogaert, "The Problem of Slums: Shifting Methods of Neoliberal Urban Government in Morocco," *Development and Change* 42:3 (2011): 715-717.
[436] Bogaert, "The Problem of Slums," 720.
[437] Philifert, "Morocco 2011/2012," 77.
[438] Independent Evaluation Group, *Cluster Project Performance Assessment Report* (Washington DC: IBRD, 2010), 3.

priority in August 2001. It took three years, and most importantly the Casablanca bombings of 2003, before strategies were developed and implemented with greater urgency.[439]

6.2.2 Urban Planning after the 2003 Casablanca Bombings

As a response to the 2003 terrorist attacks in Casablanca, the Moroccan state launched an initiative to upgrade slums in major cities. Given that most of the perpetrators of the 2003 attacks came from the main slums of Casablanca, the so-called *bidonvilles* were seen as a source of social discontent and potential breeding ground for extremism. Therefore, a strategy was devised in order to improve housing conditions in slums. In 2004, the *Villes sans Bidonvilles* (Cities without Slums) *programme* (VSBP) was formally launched. The programme targeted 212,000 households living in 1,000 slums spread over 83 cities.[440] The ambitious target was to free Moroccan cities of slums by 2010. The king's frequent mention of the programme in his speeches and the air time devoted to it on national television, showed that this programme was given a special place in the nation's social policy. Not only did the king make it a national priority in 2001, he also formally launched VSBP in 2004 and insisted in 2006 that "what we definitively envision is not just cities without slums, nor to substitute slums with soulless concrete blocks, impervious to sociable lifestyles. We understand, rather, that it is to transform our towns into spaces apt for social interaction, warmth and dignity and, while turning cities into investment and growth poles, we ensure that they remain attached to their own specific and original styles."[441]

[439] World Bank, *Kingdom of Morocco: Poverty and Social Impact Analysis of the National Slum Upgrading Program* (Washington DC: IBRD, 2006), 8-10.
[440] Independent Evaluation Group, *Cluster Project*, 18.
[441] Cited in Independent Evaluation Group, *Cluster Project*, 17.

6.2.2.1 Implementing Cities without Slums

In order to strengthen implementation capacity, a new agency was created in 2004. Holding *Al Omrane* (HAO)[442] was set up to replace ANHI. In addition, seven regional parastatal housing companies and two national ones became part of *Al Omrane*.[443] As such, this meant a certain centralization of government efforts in urban upgrading. The Ministry of Housing and Urbanism became the lead ministry under this new government initiative. A key feature of the new institutional configuration is the fact that *Al Omrane* dealt mostly with land servicing in terms of ensuring that plots of land were connected to the urban grid of roads, water, sewage and electricity. *Al Omrane* was less involved with the construction of social housing.[444] Even though *Al Omrane* was responsible for over 80% of the projects falling under VSBP, it was not the only agency involved in slum upgrading. The Ministry of Interior created a new agency for Casablanca, *Idmaj Sakan.* At the same time, some projects were handled by a branch of the state pension fund, CDG. This agency, *Dyar al Mansour*, became the third agency working in the field of slum upgrading. It came into existence when the king ordered CDG to take care of a project in a slum of Rabat when it reached an impasse in 2002.[445] In addition, AUC, the agency which was created for Casablanca in the 1980s was not merged under *Al Omrane*, but remained under the responsibility of the Ministry of Interior. Thereby, the Ministry of Interior kept its control when it came to the largest city in Morocco.[446]

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[442] The World Bank made it a loan condition that strong supervisory oversight would be implemented. The government went further than requested and set up an inter-ministerial committee chaired by the Prime Minister. [442] Independent Evaluation Group, *Cluster Project Performance Assessment Report* (Washington DC: IBRD, 2010), 15. This is a regular practice in Morocco whenever a new agency is created. It does not necessarily mean strong oversight. In fact it could even lead to less oversight given the many actors involved and could even delay progress due to departmental competition and bureaucratic infighting.

[443] The debt of the former parastatal housing agencies were cleared and *Al Omrane* was recapitalized by the government. Independent Evaluation Group, *Cluster Project Performance Assessment Report* (Washington DC: IBRD, 2010), 16.

[444] World Bank, "*Poverty and Social Impact*", 13 and 24.

[445] Bogaert, "The Problem of Slums," 722 and Bogaert, "Urban politics in Morocco," 216.

[446] Koenraad Bogaert, "Urban politics in Morocco: Uneven Development, Neoliberal Government and the Restructuring of State Power" (PhD diss., Ghent University, 2011), 200.

Despite this continued fragmentation in terms of government agencies dealing with slum upgrading, VSBP did lead to a rationalization of the government's efforts in social housing. An independent evaluation by the World Bank concluded that "the *Al Omrane Holding* consolidation completely transformed the sector's institutional landscape. It avoided duplication and zero-sum competition among regional and sectoral agencies. It provided economies of scale for implementing large-scale programs like VSB. It also offered national and international sector interlocutors a one-stop shop for exchanges of sectoral experiences and knowledge. On top of that, it was a significant achievement in that it overcame vested interests that had become entrenched in some of the older agencies."[447]

Incorporating the old parastatal companies under *Al Omrane* led to a restructuring and downsizing of the role of the government in the provision of social housing. Much of the actual construction was left to the private sector. Reducing the role of the government to that of creating an enabling environment for private developers consequently led to a technocratic approach to slum upgrading. This approach fell within the generally more technocratic approach considered as one of the main characteristics of the first decade of King Mohamed VI reign, what has been termed as 'executive authority'. The technocratic approach focusing on output and reaching targets became one of the main hallmarks of the government headed by technocrat Prime Minister Driss Jettou between 2002 and 2007 (see chapter 5 for a discussion of state-business relations under Jettou and the next section on the launching of *Plan Emergence* in 2005).

[447] Independent Evaluation Group, *Cluster Project Performance Assessment Report* (Washington DC: IBRD, 2010), 14.

Morocco called in the help of international financial institutions for expertise and for partly financing[448] this endeavor. The government allocated a total budget of 17 billion DH (around $ 2 billion). The government would use public funds to build basic infrastructure and upgrade existing ones. The resources would come partly from a tax on cement sold in Morocco.[449] Furthermore, the state negotiated with companies which provided material for construction, mostly the cement producers. In 2009, conventions were signed between the government and the associations representing construction material producers and the cement producers. The aim was to reduce the price of construction material and cement in order to render the construction of social housing more affordable.[450]

The cost of the houses would be borne by the households moving into the new social housing units. These households would buy their new social housing using mortgage loans which were guaranteed through government schemes specifically targeting these poorer households.[451] A cross-subsidy element was achieved by *Al Omrane* through the selling of high-end housing units.[452]

6.2.2.2 Incorporating the Private Sector

The new mode of state-business relations can be found in the division of labour whereby the state reduces its role in the construction of housing and draws in the private sector through financial incentives. Thus under VSBP, the Moroccan government gave the private sector a stronger role regarding the construction of low-cost housing.

[448] Besides domestic public subsidies, outside financing came mostly from the World Bank, the European Investment Bank, the EU, *Agence Francaise de Développement*. World Bank, "*Poverty and Social Impact,"* 13.
[449] Bogaert, "Urban politics in Morocco," 214.
[450] L'economiste, 27/7/2009.
[451] Independent Evaluation Group, *Cluster Project*, 21.
[452] United Nations Habitat, *Al Omrane*, 2.

Private developers were encouraged to join the social housing sector through tax breaks and the sale of land at preferential prices.[453] A division of labor emerged in which *Al Omrane* would lead construction in those segments deemed financially too risky by the private sector. By paving the way, *Al Omrane* played a strategic and catalytic role for the private sector.[454] The government was eager to enlist the help from large business groups in Morocco, among them a company belonging to the Bensalah family, Holmarcom, which had no previous experience in real estate.[455] The government was interested in the participation of these conglomerates given their financial strength. The profits to be made in this sector would cement the already close-knit relationship between these business groups and the regime.

As already mentioned earlier, a private actor who already managed several successful projects in the social housing domain was Sefrioui. His Groupe Addoha took full advantage of these new rent-seeking[456] opportunities. It had developed a business model well-suited for the social housing sector. Groupe Addoha's business model was focused on marketing and being the link between the state, (first-time) homebuyers and construction companies. As such, it subcontracted the actual building to construction companies. When it was listed on the stock exchange in 2006 as one of the first real estate company whose shares were publicly traded, it employed just 150 people.[457] In addition, in 2003, Groupe Addoha introduced a new element in its marketing strategy by facilitating the administrative procedures of buying a house. All administrative and financial issues could be taken care of in one office bringing together banks,

[453] Philifert, "Morocco 2011/2012," 79.
[454] Interview with Minister of Housing and Urbanism Ahmed Taoufik Hejira, L'economiste, 26/11/2007.
[455] L'economiste, 8/12/2005. Holmarcom did eventually venture into real estate, but in the end only targeted a higher segment.
[456] Rent-seeking defined as "any activity directed toward the pursuit of politically mediated economic gains." (Heydemann, 2004, p.29)
[457] Interview with Anas Sefrioui, Jeune Afrique, 31/7/2006.

notaries and local government agencies. This significantly reduced red-tape confronted by many first-time buyers.[458]

Given its expertise and the already built connections in the social housing sector dating back to the mid-1990s, it was no surprise that Groupe Addoha acquired land to build 50,000 social housing units in the fall of 2005.[459] Groupe Addoha thus became a partner of *Al Omrane* to build social housing in Tangier and Rabat.[460] The state viewed Groupe Addoha as a favourable partner due to its ability to deliver on large projects, its ability to venture into sectors in which there was demand for housing, but which were deemed too risky by many construction companies.[461] Sefrioui remained keen to show his strong commitment to this endeavour. He declared that "Groupe Addoha always confirms its willingness to contribute actively to public policy when it comes to housing".[462] While at the same time acknowledging that his drive was "to have cities without slums. To be one of the architects of implementing the royal vision of decent housing conditions for Moroccans."[463] His private interests were thus aligned with a public policy objective. The rents which could be acquired in this state sponsored sector ensured that Groupe Addoha grew exponentially[464]. By 2006, it had grown to such an extent that when it was brought to the Casablanca stock exchange, its shares were 18 times oversubscribed. The successful introduction on the stock exchange earned Sefrioui around 250 million euros.[465] The listing on the Casablanca stock exchange enhanced the group's financial position, which in turn enabled Groupe Addoha to sign several new deals with

[458] Interview with Adjunct Director General Groupe Addoha, Telquel, 7/7/2006.
[459] La Vie éco, 22/12/2006.
[460] Vermeren, *Le Maroc*, 293.
[461] Interview with official from Ministry of Housing and Urbanism, La Vie éco, 22/12/2006.
[462] Interview with Anas Sefrioui, La Vie éco, 19/10/2009.
[463] Interview with Anas Sefrioui, Jeune Afrique, 31/7/2006.
[464] His group, Addoha, moved into new territories in the real estate sector. His group bought the Moroccan subsidiary of the Spanish company Fadesa in 2007. This gave Sefrioui the opportunity to expand operations in the tourism sector. At the same time, Addoha continued the vertical integration of its operations by setting up two new cement plants in Morocco while at the same time opening up two new ones in Ivory Coast and Guinea. Jeune Afrique, 14/05/2012.
[465] Interview with Anas Sefrioui, Telquel, 17/10/2008.

different operators. Some joint ventures were concluded with partners from the Gulf states. Most importantly, Groupe Addoha continued its partnership with the state[466] by concluding a 11 billion DH deal for construction in the *Wilaya* of Rabat in the fall of 2006.[467]

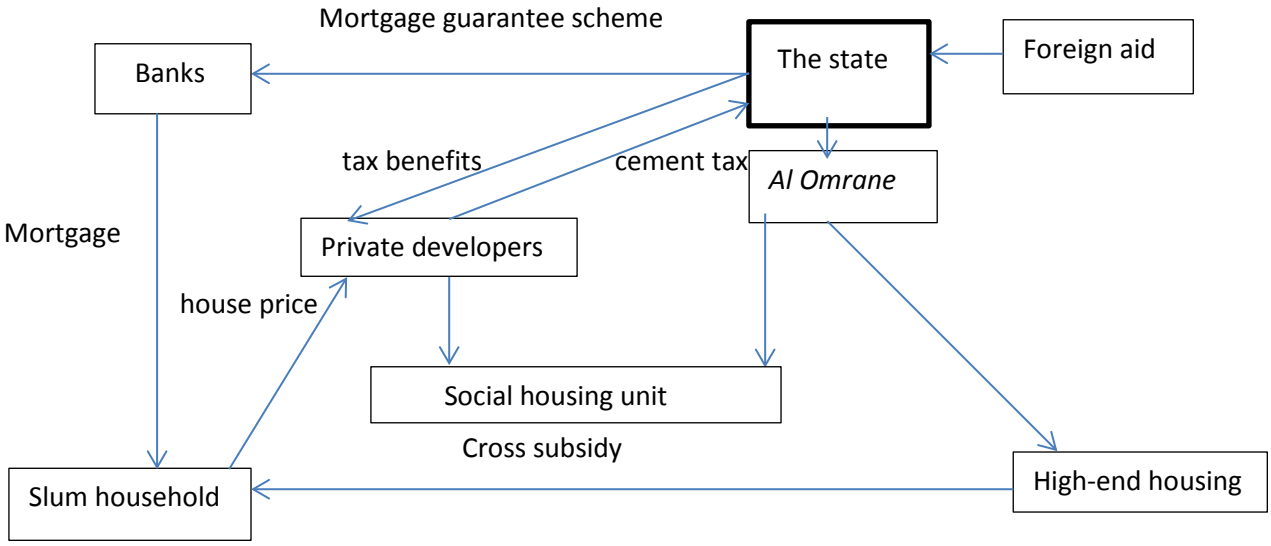
Although, some in the real estate sector benefited from the new push given to social housing, others were less enthusiastic. Even though one actor, Ynna holding belonging to billionaire Miloud Chaabi also secured large contracts, he expressed many misgivings about the preferential treatment accorded to Groupe Addoha and the unfair competition from the public agency *Al Omrane.*[468] The focus on social housing often came at the expense of developing higher end housing units. Private developers specializing in high-end and middle class housing segments complained that the government focused too much on the social housing programme and delayed improving infrastructure and allocating the necessary licenses for the other segments of the housing market. For some private developers, this new priority given to social housing by the government was perceived as a way to force the private sector into the neglected lower-end of the housing market.[469] This led some developers to move into the construction of social housing units, reaping the tax benefits that came with it. The end result was the drying up of construction for the middle class. Many of the social housing units were consequently sold at a premium to middle class families and Moroccans residing abroad.[470]

The incorporation of the private sector in VSBP took place in order to address the lack of financial resources. The modus operandi is elaborated in the below schematic

[466] Another joint venture was concluded in 2011. Groupe Addoha signed a partnership with the housing agency of the Moroccan military to enter a joint venture of 10 billion DH. The partnership would be on a fifty-fifty basis and entail among others the building of 37.000 social housing units for military personnel. Interview with Anas Sefrioui, La Vie éco, 08/03/2011.
[467] La Vie éco, 22/12/2006.
[468] Interview Miloud Chaabi, La Vie éco, 11/07/2008.
[469] Independent Evaluation Group, *Cluster Project*, 24.
[470] World Bank, *Implementation, Completion and Results Report* (Washington DC: IBRD, 2008), 19.

representation. It shows how state funds are mobilized and used in order to incentivize the private sector to participate in the construction of social housing.

Figure 6.2. Financial flows of VSBP



This financing scheme allows a fiscally constrained state to mobilize domestic and international resources in order to alleviate the housing conditions of slum residents. The key difference with the state attempts in the earlier decades is that this financing scheme draws in the private sector and allows part of the risk to be shared by the slum resident, the bank, the private developers and the state, through its public agency.

6.2.2.3 Implementation Obstacles

Several obstacles affected the implementation of VSBP. Most importantly was "the incoherence and fragmentation within and across ministries and regional layers of

administration and political competencies".[471] Given the high priority attached to it by the king, the relevant agencies worked assiduously to meet ambitious targets.

However, setting up a new institutional configuration for social housing and urban planning created coordination issues between various government ministries. The ministry with the lead for VSBP was the Ministry of Housing and Urbanism. Given the high level importance attached to VSBP, the standing of this ministry was enhanced vis-à-vis other ministries. One of the other important ministries dealing with VSBP was the Ministry of Finance, because of the different financial schemes, the sale of land for social housing and the budget allocation to the Ministry of Housing and Urbanism. The Ministry of Interior and local officials were key in terms of implementation. Because this ministry is an important control element in the structure of the Moroccan state, the involvement of the royally appointed governors was to oversee the implementation of VSBP, ensuring the execution of the king's vision. However, at the local level, VSBP clashed with local interests of politicians and bureaucrats. Slums provided a fertile ground for vote buying, the illegal supply of land, and corruption related to the provision of water and electricity. The illegal nature of slums was an additional control measure of local officials over the slum population. Therefore, slum upgrading was not necessarily in the interest of important segments of (elected) local government.[472]

It is critical to note here that the above mentioned three ministries and *Al Omrane* were all concerned with the swift implementation and the reaching of targets. Hence, they were more preoccupied by technical issues rather than the social dimension of the programme, which included increasing participation by and support of the slum population. The two actors whose primary goal was to assist the slum population were the Ministry of

[471] World Bank, "*Poverty and Social Impact*", 42.
[472] Ibid., 23-24.

Social Development, family and solidarity and the Social Development Agency. The ministry was created in 2005 and given its mandate had an interest in ensuring VSBP's success, mostly through enhancing the role of the slum population itself. The Social Development Agency, which was created in 1999, also had an interest in the social component of VSBP. However, both failed to develop strong institutional links to VSBP. This was partly the result of internal institutional failures, like understaffing and lack of resources.[473]

Given past disappointments, many in the slums were suspicious of new government initiatives, especially among the older residents. The backing of VSBP by the king raised hope among slum residents. However, their trust of especially local officials remained low, given that these local politicians and officials were perceived as self-interest seeking actors. More distantly located authorities and central agencies were perceived with a higher degree of trust. Even though knowledge of VSBP varied among slum residents, those who knew about it, were eager to participate in decision-making, preferably at an early stage.[474]

Although the new approach was to deviate from the security-oriented one followed under the auspices of ANHI, in practice the more technocratic approach prevailed over the social participatory approach. The focus, at least on paper, was to include the slum population in the new programmes of Al Omrane. In essence, this meant a less top-down approach and a more bottom-up approach. Despite this, lip service was paid by (central) authorities with regard to participation by the slum residents in the upgrading of their slums. Most institutional actors involved had an interest in implementation and thus saw the exercise more in terms of delivering units of housing and measurable outputs. Participation and social support were deemed time-consuming and thus counter to their institutional interest. In addition, the operational aspects confirmed many of the past experiences of slum residents. Despite high

[473] Ibid., 24.
[474] Ibid., 25-26 and 32-33.

level commitments, implementation was often in the hands of actors whose interests sometimes ran counter to the stated objectives of VSBP. Interaction between slum residents and local officials and politicians followed a well-trodden path of failed delivery, lack of transparency and little participation by slum residents in decision-making.[475]

6.2.2.4 Results of Cities without Slums and its Implications for the Political Economy

Although the ambitious targets for 2010 were not met, Morocco did manage to make important progress in terms of slum upgrading. Despite the above mentioned obstacles, VSBP was recognized internationally for its achievements. In 2010, UN Habitat granted Morocco the 2010 Habitat award.[476] Looking at the figures in terms of housing units constructed and the financial support provided to households, one could see some justification for this award. Slum population decreased to 3,9% of the population in 2010, down from 4,8% in 2003.[477] By the end of 2010, 70% of the targeted households were reached. Thus allowing Morocco to declare 42 cities were without slums.[478] This was realized through an annual construction of 111.000 social housing units between the launching of VSBP in 2005 and 2010. The funding through the tax on cement ensured that the government received an annual sum of close to 1,5 billion DH between 2005 and 2010. Around 62.000 households benefited from the government mortgage guarantee scheme, which amounted to a total of 9 billion DH. Three banks (BCP, CIH[479] and BMCE) provided 85% of these mortgages.[480] However, around just 10% of the beneficiaries were slum residents.[481] In addition, little attention was paid to the continued growth and formation of new slums. This happened while at the same time, many of new social housing

[475] World Bank, "*Poverty and Social Impact*", 42-46.
[476] Direction de la Promotion Immobilière, *Bilan 2010-Perspectives 2011,* (Rabat: Ministry of Housing and Urbanism, 2011), 40.
[477] United Nations Habitat, *Al Omrane*, 3.
[478] Direction de la Promotion Immobilière, *Bilan 2010-Perspectives 2011,* 10.
[479] *Crédit Immobilier et Hôtelier*
[480] Ibid., 19-21.
[481] Bogaert, "The Problem of Slums," 723.

apartments were left unsold. By 2008, this amounted to 21.000 unsold units.[482] Part of the reason lies in the fact that many Moroccans saw these houses as of inferior quality, a stigma particularly strong when it comes to houses built by Groupe Addoha.

The discussion of VSBP reveals a changing relationship between the king, various government agencies, certain groups in society (in this case slum residents), and the private sector. From the kings perspective, VSBP provided an important opportunity to link up with the poorest segments of society. This increased his standing as king of the poor. Multiple site visits and declarations by the king regarding slum upgrading enhanced his popularity among slum residents. The political imperative of combating extremism was just part of the interest displayed by the king for VSBP. The Casablanca bombings of 2003 only increased the urgency of implementing a previously stated national priority. The state was redeployed, yet this time it diverted in three significant ways from previous attempts. The creation of agencies, the rationalization of older ones and the city-wide approach meant a certain centralization. Despite this attempt at countering the previous fragmented efforts, much of the institutional fragmentation still remains, with important agencies falling under the prerogatives of the Ministry of Interior and public institutions like CDG. This means much what happens in terms of urban upgrading takes place in institutions outside of the reach of politically elected officials. *Al Omrane* was set up outside the Ministry of Housing and Urbanism and has therefore some autonomy vis-à-vis the Ministry of Housing and Urbanism. Furthermore, the director of *Al Omrane* is appointed by the king.

Besides this rationalization of state efforts, the new approach meant less state involvement and more private sector involvement in the construction of social housing and in the provision of credit, albeit state guaranteed. The third aspect is the declared interest in

[482] Independent Evaluation Group, *Cluster Project*, 22-23.

increasing participation of slum residents. Hence, the objective is to combine a top-down approach with bottom-up participation. However, old practices and the technocratic focus on delivering measurable outputs meant that the bottom-up approach received less priority. These failures provided the king with the opportunity to demand better implementation, thereby further increasing his popularity among slum residents. At the same time, private sector actors have been brought in to perform a task on behalf of the state. The rents accrued through various opportunities opened up by VSBP, whether purposefully or unintentionally, have only helped cement the relationship between well-connected private developers, like Sefrioui[483], and the monarchy. The increased participation of the private sector in state initiatives is visible in the industrial upgrading program, which is the topic of the next section.

6.3. *Plan Emergence* and the textile sector

Morocco launched several large scale initiatives in the first decade of the twentieth century. These range from plans targeting tourism (*Plan Azur*, Vision 2020), the agricultural sector (*Maroc Vert* in 2008), commerce (*Plan Rawaj* 2020), to energy (*Plan Nationale pour l'Energie* in 2009). For industrial upgrading, Morocco announced *Plan Emergence* in 2005, followed by a *Pacte National pour L'Emergence Industrielle* in 2009.

Plan Emergence was a result of a study by McKinsey consultants. The recommendations were taken on board. Because of a stable political environment and a prime minister who came from the private sector, it was possible to move ahead quickly in devising a strategy. Prime Minister Driss Jettou emphasized close collaboration with CGEM. Recall that he

[483] Sefrioui maintains his image of a simple and traditional man. Many of his projects carry names inspired by the Quran, while at the same time he invests in the restoration of his home town, Fes. Moroccan dialect is used more extensive than modern standard Arabic in the marketing slogans of Groupe Addoha. This image of mixing tradition and modernity is in line with the approach long cultivated by the late king Hassan II. A painting in the headquarters of Groupe Addoha is illustrative of Sefrioui's patriotism. He ordered a painting of the Green March and suggested to the painter to put the Spanish flag half mast, while having the Moroccan flag waving victoriously in the wind. Interview with Anas Sefrioui, Telquel, 17/10/2008.

helped the then CGEM President to get reelected in 2003. It thus helped that the main actors knew each other. Private sector consultations were vital given the fact that they have knowledge of what is needed. For over a year prior to the launch in 2005, different stakeholders would meet weekly to discuss the draft strategy for industrial upgrading.[484]

Plan Emergence and the *Pacte National* target specific sectors in Morocco which will receive state aid. However, the majority of funds will come from the private sector, including foreign direct investment. *Plan Emergence* aimed at six strategic sectors, offshoring services, automotive, aeronautics, electronics, foodstuff and the textiles and craft industry. The goal was to create 440,000 jobs by 2015. In the revised 2009 version of *Pacte National*, biotechnology, nanotechnology and microelectronics were added. Both plan and pact include training and human capital upgrading, the establishment of industrial clusters and investment in infrastructure. The revised plan also included better evaluation measures and institutional set-ups through which the various stakeholders could be held accountable for not reaching their targets. CGEM had a prominent position in the institutionalized committees.[485] A revision of the original plan was needed because *Plan Emergence* did not include robust measures. It was therefore difficult to monitor and evaluate.[486] For the *Pact National* the state would provide 12,4 billion DH, while 50 billion DH would be furnished by the private sector.[487] Funds were made available by BMCE, Attijariwafa bank and BCP. Together they invested in a special fund dedicated to industrial upgrading.[488]

Besides providing financial funds for the above mentioned plans and initiatives, the state also set up various new publicly owned enterprises. Between 2001 and 2010, 350 state-

[484] Interview with former advisor of prime minister Driss jettou, Hynd Bouhia, 20/4/2011.
[485] Interview with former CGEM President Horani, 11/06/2014.
[486] Interview with Soundous Bouhia, Advisor to the Minister of Industry and Commerce, 9/5/2010.
[487] OECD, *Investment Policy Reviews: Morocco 2010* (Paris: OECD, 2010), 51.
[488] L' Economiste, 9/5/2011.

owned enterprises were created. Of these, almost half, 48% were linked to CDG, OCP, the phosphate company and BCP. What is even more remarkable than the amount of state-owned enterprises being created is the capital investment of these entities in the Moroccan economy. Together they accounted for 30.3% of gross capital formation in 2010. Put differently, investments by these state-owned enterprises rose from 18 billion DH in 1999 to 70.9 billion DH in 2010.[489] The next section will look into more detail how the private sector worked together with the state in devising an industrial upgrading strategy.

6.3.1 Overview of the Moroccan textile and clothing sector

The textile and clothing sector is an important sector for many developing countries. It is often the first step in the industrialization process. The sector offers countries the possibilities to link up with global producer chains and consumers abroad. This in turn opens up the opportunity to move up the production chain, from low-value added textile products to more complicated and high-value added production processes. It is therefore that employment in the textile and clothing sector offers workers a premium in terms of wages in comparison to jobs in the domestic economy that require similar skill levels.[490]

One important feature of the textile and clothing sector is the trade regime under which it operated. In order to protect local industries in the developed world, restrictions were placed on how much developing countries could export to the developed countries. Yet despite the fact that this limited trade flows, it also created opportunities for developing countries. The quota's provided a predictable export market. Trade flows were regulated and thus less affected by pure market forces. This regulated trade regime came into existence in

[489] Abderrahmane Semmar, "Corporate governance of state-owned enterprises in Morocco: evolution and perspectives," in *Towards New Arrangements for State Ownership in the Middle East and North Africa*, ed. OECD (Paris: OECD Publishing , 2012), 153-156.
[490] Raymond Robertson, "Introduction," in *Sewing Success? Employment, Wages and Poverty following the End of the Multi-fiber Arrangement,* ed. Gladys Lopez-Acevedo and Raymond Robertson (Washington D.C.: The World Bank, 2012), 8-9.

1974 under the Multi-fibre arrangement (MFA). The system of quota's was eventually phased out in 2005. The removal of the MFA had important consequences for textile and clothing exporting countries. Labor costs, location and the business environment were becoming important in determining patterns of production and exports.[491]

Like other developing countries, Morocco always had a sizeable textile and clothing sector. The sector grew markedly during the 1960s and became an important sector within the manufacturing industry. Its relevance for the economy increased over the course of the final two decades of the twentieth century. While 27.1% of employment in the manufacturing industry was generated by the textile and clothing sector in 1985, it had risen to 39.4% in 1998.[492] Over the course of the years between 2000 and 2008, employment in this sector accounted for 44% of industrial employment.[493] The weight of the textile and clothing sector in merchandise trade increased as well, from 15.7% in 1985 to 34.8% in 2000.[494] The Moroccan textile and clothing sector continued its growth in the last five years of the MFA. Textile and clothing exports made up 37% of total exports in 2005.[495] This ensured that Morocco managed to maintain its ranking, 21, in terms of share in world clothing exports between 1990 and 2004.[496] However, according to World Bank development indicators, the value added to manufacturing of the textile and clothing sector dropped from 19% in 1990 to just 10% in 2010.

[491] Robertson, "Introduction," 10.
[492] Maskazu Someya, Hazem Shunnar and Srinvasan, T.G., "Textile and Clothing Exports in MENA: Past Perfomance, Prospects and Policy Issues in Post MFA Context," *Middle East and North Africa Region Working Paper: World Bank* (2002): 7.
[493] Robertson, "Morocco," 399.
[494] Someya, Shunnar and Srinvasan, T.G., "Textile and Clothing Exports in MENA," 7.
[495] Melani Cammett, "Business–Government Relations and Industrial Change: The Politics of Upgrading in Morocco and Tunisia," *World Development* 35:11 (2007): 1892.
[496] World Bank, *Morocco, Tunisia, Egypt and Jordan after the End of the Multi-Fiber Agreement: Impact, Challenges and Prospects* (Washington DC: World Bank, 2006), 20.

One important feature of the sector is worth highlighting as it will become important in the discussion on state-sector relations in the next section. In 1990, the two subsectors, textile and clothing, were equal in size. For example, approximately 80,000 worked in the clothing sector while approximately 75,000 worked in textiles. By 2007, the clothing sector surpassed the textile sector, employing around 150,000 workers, while the textile sector had shrunk to 38,799.[497] The clothing sector was made up of 880 firms in 2008, mostly small and medium enterprises. Although most of these were Moroccan owned, foreign investment increased in the first decade of the twentieth century.[498]

Since 1995, Morocco lost some of its share in world clothing exports. While it exported 1,5% of total world exports in clothing, its share dropped to 1,2% in 2009. However, this drop happened before the abolishment of MFA in 2005. Since 2005, its share remained stable at 1,2%. In terms of annual growth, the Moroccan clothing sector experienced volatile annual growth figures, see table 6.3. What is remarkable is that Morocco continued to show growth figures after the phasing out of MFA. Sharp reductions only took place in 2009, following the onset of the world financial crisis.

Table 6.3. Annual growth figures of Moroccan clothing exports (1995-2009)[499]

	1995	1998	2001	2004	2005	2006	2007	2008	2009
growth rates (%)	22.6	9.4	8.6	8.1	-4.3	7.9	17.9	5.4	-19.4

[497] Arianna Rossi, "Economic and Social Upgrading in Global Production Networks: the case of the Garment Industry in Morocco" (DPhil thesis, University of Sussex, 2011).
[498] Robertson, "Morocco," 387.
[499] Based on Robertson, "Morocco," 384.

Until the mid-1980s, the clothing sector in Morocco was mainly geared towards the domestic market. When Morocco switched to a more export-led industrial growth strategy, the clothing sector became more export-oriented as well. The proximity to Europe was key in turning the sector towards more exports. EU rules allowed producers to shift labor-intensive parts of their production chain to non-EU countries under the conditions that the inputs originated in the EU. Morocco was an ideal location given its low labor costs and proximity. Thus, Moroccan firms became increasingly part of the supply chain of EU brands. When Morocco signed an Association Agreement with the EU in 1996, it became possible to use locally produced inputs for clothing production. However, Moroccan producers did not move up the supply chain ladder. They were unable to transform and produce their inputs locally to then be used in the production processes for the brand clients in the EU.[500] The Moroccan textile sector, therefore, mostly subcontracts. There are few firms which can design, produce and market a product from start to finish. The other weakness of the Moroccan textile and clothing sector is that it has to procure most of its inputs from abroad.[501] Furthermore, few firms are cross-sectorally integrated in the sense that they can produce for both the export as well as the domestic market. The domestically oriented firms face competition from the informal sector, while the exporters benefit from fiscal incentives provided for by the state.[502]

Given the importance of the textile and clothing sector in terms of employment, it is of interest for the present research to analyze the evolution of state-business relations in this sector. What did the state provide to the sector in order to support it? Did the state have a credible partner on the sector side to deal with? The remainder of this section answers these

[500] Raymond Robertson and Gladys Lopez-Acevedo, "Morocco," in *Sewing Success? Employment, Wages and Poverty following the End of the Multi-fiber Arrangement,* ed. Gladys Lopez-Acevedo and Raymond Robertson (Washington D.C.: The World Bank, 2012), 382-384.
[501] Interview with Serge Chouchana, CEO of clothing firm, 24/06/2009.
[502] Interview with Hanine Tazi, Director AMITH, 26/06/2014.

questions by looking at the association representing the sector and its involvement with the state since trade liberalization started in the 1980s.

6.3.2 State-business relations in the textile and clothing sector

Before the 1990s, the Moroccan Association of Textile and Clothing Manufacturers (AMITH) was dominated by traditional textile producers, who produced mostly for the domestic market. The fact that a CEO of the firm belonging to the Kettani group headed AMITH for over 20 years is illustrative of the dominance of the businessmen who benefited from import-substitution policies. These producers were therefore reluctant to support trade liberalization which was part of structural adjustment in the 1980s. The global economic downturn in the early 1990s affected many sectors in Morocco, including the textile sector. Within this sector, there was one group which was hurt even more. The export-oriented clothing producers were hit by a slowdown in global demand. These producers started to take an active role within AMITH. This meant that the clothing producers had to work together with the domestically-oriented textile producers. To acknowledge the growing interest and power of the clothing producers in AMITH, the name had to be changed to include clothing (*Habillement)*. There were other institutional measures which were implemented, like new headquarters, the hiring of permanent staff, the setting up of working committees, and regulations regarding presidential elections and tenure. More members were added to AMITH and it became a more representative organ for the sector, not just the few large firms who used it for their personal gain. The positive institutional changes, and increased membership turned AMITH into a strong encompassing association. It depended on membership fees which rendered the association more accountable to its members. By the mid-1990s, AMITH covered 84% of producers and 97% of total exports.[503]

[503] Cammett, *Globalization and Business Politics,* 149-154.

The enlargement of the association did not come at the cost of not being able to discipline members if they did not meet their obligations. For example, 101 firms were expelled when they did not pay their membership fees in 2006.[504] It was thus the influx of export firms and small and medium sized firms that comprised most of the newly added members. However, the more diverse membership would pose challenges to internal unity.

Despite this, unity was maintained during the anti-corruption campaign of 1995-96 (which was discussed in the previous chapter). The textile and clothing sector was also one of the sectors targeted by the authorities directed by Minister of Interior Basri. More in particular, it was the clothing producers who bore the brunt of the authorities. This was part of their alleged abuse of a custom duty exemption which allowed producers to import inputs without paying customs provided they exported final goods within six months. Oftentimes, inputs were sold on the domestic black market. Although, there was justification for cracking down on this corrupt practice, many felt that this campaign was conducted arbitrarily and that the corrupt practices could not have taken place without the knowledge of, for instance, custom authorities and inspectors. Many producers ended up in jail and/or faced major fines. Even though this crackdown targeted one part of the sector more heavily than others, AMITH still took upon it to defend these members. Together with CGEM, the businessmen successfully lobbied the government to stop the campaign and to release producers. This anti-corruption campaign thus provided a galvanizing moment for AMITH and showed that it could effectively act on behalf of its constituents.[505] It furthermore underlined the strength of AMITH as a strong member within CGEM.[506]

[504] L' economiste, 13/07/2007.
[505] Cammett, *Globalization and Business Politics,* 154-157.
[506] Interview with Hanine Tazi, Director AMITH, 26/06/2014.

Fiercer foreign competition and the desirability of trade liberalization would soon put the unity of AMITH to the test in the late 1990s. The exporting firms, who had become more prominent members of AMITH, wished to see AMITH campaign for a more liberal trade regime in Morocco. This went against the interests of the traditional textile producers. Part of the exporters were even scheming to remove the traditional textile producers from AMITH in 1998. The main source for the dispute and antagonistic relations was the discussion whether Morocco should accelerate the trade liberalization programme agreed upon with the EU in 1996. The exporters were pushing for such advanced implementation, while the traditional textile producers were calling for a more gradual approach. Given the fundamental disagreement, AMITH stopped being the channel through which the various factions lobbied the government. Relations between the opposing groups deteriorated to such an extent that each group lobbied the Ministry of Finance and the Ministry of Industry instead of through a uniform message by AMITH. The exporters were hoping that the government would deliver on an earlier promise to indeed accelerate trade liberalization. However, the exporters soon found out that the government was sticking to the time schedule as agreed with the EU. By doing so, the government sided with the traditional textile firms.[507] This gave rise among exporters of "the widespread perception that the textile lobby had exerted its allegedly vast influence on key government officials, if not directly the palace."[508]

The disagreement about the pace of trade liberalization exposed serious division within AMITH, but did not lead to fragmentation of the representative association. During 1998, a concerted effort by AMITH members was made to find a common denominator around which they could successfully lobby the state. Both traditional textile producers and the exporters agreed on the need for flexible labor laws, upgrading by the state of infrastructure, reduction of energy costs, changes in the customs codes, ease of access to credit, and lower

[507] Cammett, *Globalization and Business Politics*, 159-164.
[508] Ibid., 164.

borrowing costs. In addition, both groups favored improvement in the business climate. This would attract foreign investment, which would benefit both groups. By agreeing on this shared platform both groups ensured that AMITH could continue to act as a mouthpiece of the entire sector and thus be a strong and credible partner for the state.[509]

The proposals were summarized in a *Contrat Programme*, which was discussed with government officials in 2000. By presenting it as a contract, AMITH sought to become a credible partner of the state by promising to keep employment up. In return, AMITH called for financial incentives, tax breaks and state support in setting up a school dedicated to the textile sector, which opened its school doors in 2004. The discussions and the *Contrat Programme* proposal eventually led to a formal agreement when AMITH and the government signed a Framework Agreement in 2002. This agreement included initiatives through which the sector benefited, like a financial restructuring fund, an upgrading fund, and state support in production and social security costs. This was complemented with the *Plan Emergence* in 2005. New funds were created to help the sector with debt restructuring. In addition, the government would improve the business climate through infrastructure and educational investments and though reducing administrative barriers for firms.[510] Prior to the *Contrat Programme* and the inclusion in *Plan Emergence*, AMITH had already ensured the streamlining of customs processing procedures and regulations. In addition, the government agreed to a devaluation of the Moroccan Dirham in 2001, which mostly benefited the exporters. AMITH had also ensured a reduction in energy costs, which was something sought after by the traditional textile producers.[511]

[509] Ibid., 164-165.
[510] Melani Cammett, "Business–Government Relations and Industrial Change: The Politics of Upgrading in Morocco and Tunisia," *World Development* 35:11 (2007): 1895-6.
[511] Cammett, *Globalization and Business Politics,* 185-187.

The above mentioned successful lobbying efforts were the result of a new type of state-business relations. Previously the state took a less active role when it came to upgrading of the textile sector. Therefore, the initiative came from the sector itself. As the then president of AMITH exclaimed once in exasperation, ”we have had a strategy for the sector for a while now, it’s the government which never had one!”.[512] AMITH therefore actively sought government support around the time Morocco negotiated the EU Association Agreement in the mid-1990s. But there was a noticeable difference with previous state-business interaction. Whereas in the past the traditional textile producers made use of personal connections they had cultivated among high level officials in government and the palace, the new export producers lacked such inroads. Hence, AMITH became an important channel for them to interact with the state. Although internal frictions remained, AMITH became a vehicle for interest articulation leading to a more institutionalized state-business relationship. The benefits of the new role of AMITH were evident also to the traditional textile producers, viewing it as an additional tool of pressure besides their old networks.[513]

Following the worldwide economic crisis of 2008, these institutionalized state-business relations proved their usefulness. Weekly meetings between the state and the sector have become the norm. In order to safeguard employment in the sector, the state offered fiscal incentives. The sector in turn ensured that employment levels were maintained as much as possible. From the state point of view, AMITH is perceived as a credible and representative partner. While the state remains the ultimate decision-maker regarding support it can provide, it is the sector which often approaches the state with requests and initiatives. In order to ensure that the different groups within the sector are kept satisfied, the state supported both exporters in their search for markets abroad as well as the domestically-oriented textile

[512] Interview with President of AMITH, Karim Tazi, La Vie économique, 20/01/2005.
[513] Ibid., 189.

producers by promoting Moroccan products on the local market.[514] A synergetic relationship emerged over the years in which the state seeks input from the industry, while the sector holds the state accountable on delivering on strategy promises.[515] The next chapter will show that such constructive relationships are not the norm in Morocco. The pharmaceutical sector has not been able to institutionalize a state-sector relationship similar to the one AMITH has developed.

6.4 Conclusions

The general theme which emerges from the analysis provided in this chapter is the increased close and collaborative relationship between the state and the private sector. From the state points of view, the private sector is needed in order to furnish the various initiatives with the necessary funding. This was clear in the case of the Cities without Slums programme. A tax on cement in exchange for fiscal incentives were used to get private developers to move into the social housing unit. The state centralized its many fragmented agencies and thus became a credible partner for the private sector. For the monarchy it meant that entrepreneurs could be co-opted while at the same time the housing conditions of the poor were improved. Rent-seeking opportunities drove private developers to this sector. Even though it had negative repercussions in terms preferential treatments and skewed incentives away from other housing niches, the end of result was that a fair amount of slums were upgraded.

Similarly, when it comes to generating employment, the state is eager to enlist the help of the private sector, like in the case of the textile and clothing sector. From the point of view of the sector, state support is much needed in times of free trade agreements. However,

[514] Interview with Taha Ghazi, Head of Textile and Leather Division, Moroccan Ministry of Industry and Commerce, 20/06/2014.
[515] Interview with Hanine Tazi, Director AMITH, 26/05/2014.

in the case of AMITH, it took a concerted effort from the sector to get the state on board. Despite this, once state-sector channels were more formalized, a collaborative process led to strategies being devised to accommodate wishes of the private sector. In return, the sector maintains employment, an important objective given the possible social unrest that could ensue from large unemployment. The next chapter will show how relations were in another sector, namely that of the pharmaceuticals.

7. The Moroccan Pharmaceutical Sector

7.1 Introduction

The case study in this chapter concerns the Moroccan pharmaceutical industry. There are several reasons why it is of particular interest for this research to analyse this sector. Firstly, the sector is typical given its rise during the import substitution period. It is a well-developed sector and meets two thirds of local demand for medicine. Secondly, competition is increasing lately due to the opening up of the economy. Thirdly, the sector is facing public scrutiny because of its rent-seeking activities, mainly in the setting of prices. And lastly, it is a small sector, well-organized, highly concentrated, with both national as well as multinational firms. Applying a process tracing approach, this chapter provides a detailed discussion of policy areas in which producers and the state interacted. This interaction will shed light on the changing dynamics between the state and the private sector. The following sections elaborate on how the state-sector relations developed in certain key policy areas, namely, opening up of the economy, developing the sector, and the issue of price setting. The aim is to firstly, show how a changing support base for the regime affects the relationship between the state and the sector. And secondly, how fragmentation on both the state and the sector side, affects the reform process. Before delving into the policy areas, a brief overview of the sector and its representation is provided.

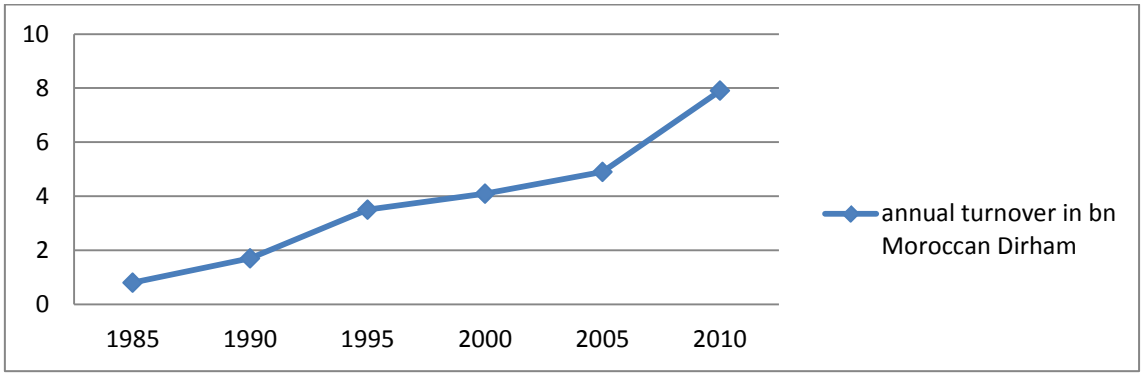
7.2 Overview of the Sector

The Moroccan pharmaceutical sector is the second most developed on the African continent, after the South-African one. Only covering 15% of the local market in 1965, the sector grew to cover 80% of local demand in 2000. This figure has gone down to 65% in 2011. As of 2011, there were 35 production sites in Morocco. The sector guaranteed 40,000 direct

and indirect jobs, of which 95% were held by Moroccans. The sector was already developing during the colonial era, eight firms were created between 1933 and 1953, with another ten created before the start of the structural adjustment program in 1983. In terms of production sites, this grew from 8 in 1965, to 22 in 2000, to 35 in 2010. [516] [517] [518] [519] [520]

On average the sector grew by 10% annually between 1980 and 1997. The years 1995-2005 witnessed a slowdown in the growth figures. In the early years of the 2000s the industry was facing stagnation, with an annual turnover in 2003 close to that of 1999.[521] This picked up again after 2005 (see graph 7.1). The increase in demand after the introduction of wider health insurance most likely alleviated some of the pressures. Excess capacity could be used to meet the increased demand.

Graph 7.1. Annual turnover of the Moroccan pharmaceutical industry



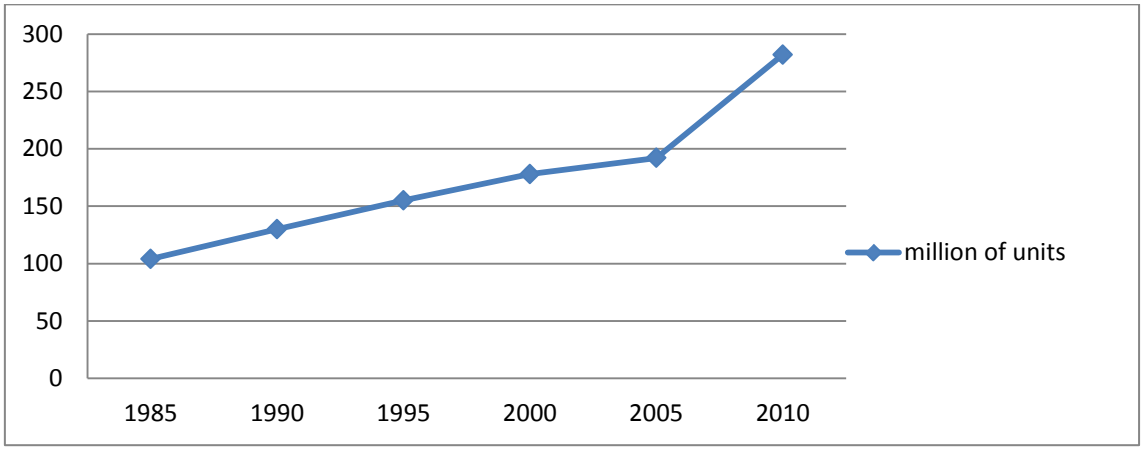
Source: AMIP annual report 2011

The annual volume of production, has increased remarkably since 2005, after a relatively steady growth in the preceding decade (see graph 7.2). According to Achy,

[516] AMIP annual report 2011.
[517] Conjoncture, n. 778, 02/1998.
[518] La Gazette du Maroc, 19/12/2005.
[519] AMIP: www.amip.ma.
[520] Ibid.
[521] Economie & Entreprises, October 2003.

pharmaceutical products can be accounted among the industrial products subgroup that witnessed the highest growth in terms of their value added of the manufacturing sector between 2000 and 2010.[522]

Graph 7.2. Size of the Moroccan pharmaceutical market



Source: AMIP annual report 2011

The sector has become more open to international trade. Exports went up from 2,8% in 1980 to 6% in 1996, to around 10% in 2010. Imports reached a level of 25% in 1996, and stood around 35% in 2010. This means market share of the domestic market for local producers has been slowly decreasing as a result of the opening up of the economy. Almost 90% of the input for production is imported.[523] Investments grew markedly over the decades, going from 25 million DH in 1985, to between 200 and 300 million DH annually since 1995.[524] A high point was reached in 2008, with around 400 million DH.[525] This amounts to 5,7% of annual

[522] Achy, Lahcen, "Structural transformation and industrial policy in Morocco," Working Paper No. 796, 2013, *Economic Research Forum*.
[523] Economie & Entreprises, May 2001.
[524] Ibid.
[525] Conseil de la Concurrence, *Etude sur la concurrentiabilite du secteur de l'industrie pharmaceutique*, 2011, 14.

turnover. In 2010, of the total units produced, 28.8% were generics.[526] [527] This is a marked increase from the 19.1% in 2001.[528]

Spending on medical products is relatively high in terms of GDP in Morocco, over 40% of the expenditures on health as compared to 18% in the OECD in 2007.[529] But the lack of consumer purchasing power is a major concern for the firms operating in this sector. Consumption went up from 120 DH[530] on average a year per inhabitant in 1990 to 180 DH in 2000, whereas in Tunisia this figure stood at 350 DH. A small portion of the population is covered by medical insurance, before the government introduced insurance reform in the mid-2000s. This low purchasing power of the population means that the market remains limited in size. It is therefore difficult for producers to reap the benefits of economies of scale.

An important feature of the Moroccan pharmaceutical industry is the presence of large multinationals. The rest of the sector consists of many small and medium sized companies. [531] In 2003, 76% of the production was realized by just 10 of the 26 companies.[532] The level of concentration has decreased over the past three decades, yet by 2009, the first ten companies still held a share of 68% of the market.[533] In 2009, six companies had a market share of 50%. If one looks at the division between multinationals and nationals, half of annual turnover in 2010 came from multinationals. The fact that many multinationals have gone through stages of mergers and takeovers has an effect on the Moroccan domestic sector as well. The economies of scale realized by these multinationals make the subsidiaries more competitive. The

[526] A generic drug is a product that is similar in its structure to the original patented brand product, and is developed after the patent on the original expires.
[527] AMIP annual report 2011.
[528] Economie & Entreprises, October 2003.
[529] Rapport de la Mission d'information sur le Prix du Medicament au Maroc, 3 november 2009, 15.
[530] Moroccan Dirham. 1 euro is around 11 DH, 1 US$ is around 8 DH.
[531] Economie & Entreprises, March 1999.
[532] Economie & Entreprises, October 2003.
[533] Conseil de la Concurrence, 2011, 10.

companies which are not owned by multinationals are thus facing increased competition. This comes at the same time as the Moroccan economy is slowly opening up which affects the entire pharmaceutical sector.[534]

In terms of size distribution of firms in the sector, the following table is indicative. A caveat needs to be added about the difficulty to find turnover figures in an industry which is mostly family owned or part of large multinational conglomerates. Less than a handful are publicly listed companies on the Casablanca stock exchange.

Table 7.3. Market share top ten pharmaceutical producers in Morocco in 2009

	Market share
Sanofi-Aventis (multinational)	10,5%
Maphar (originally Moroccan, but since 1981 subsidiary of Sanofi-Aventis)	9,3%
Laprophan (Moroccan)	8,6%
Cooper (Moroccan)	7,9%
Sothema (Moroccan)	7,3%
GlaxoSmithKline (Multinational)	6,9%
Bottu (Moroccan)	5,1%
Pfizer (Multinational)	4,4%
Galenica (Moroccan)	4,4%
Pharma 5 (Moroccan)	3,8%

Source: AMIP, as cited in Conseil de la Concurrence Report, 2011

[534] Economie & Entreprises, May 2001.

What can be derived from this table is that the sector is not dominated by just a few firms. Although Sanofi with its Maphar subsidiary is clearly market leader. Both Moroccan and multinational firms are part of this top ten. Equally important, the list includes both exclusively generic drug producers as well as patent/brand name producers. Furthermore, it includes companies that were created in the 1980s, as well as companies that date back to the pre-independence period. This table does not reveal more subtle domination of certain segments of the market. Important to note is that the Ministry of Health is an important player in the market, through its purchasing power. Of its purchases, 90% are generic products, which tend to favor national companies. For example, Pharma 5 is the main supplier to Moroccan hospitals. Another example is that the market for insulin is divided between Sothema and Laprophan. Both are, as of 2012, engaged in a battle, in which Sothema, producing locally, accuses Laprophan of importing from the Danish Novo Nordisk multinational and dumping it on the national market. At the same time, both are accused of dominating the market for insulin at the expense of smaller firms like Polymedic. Regarding the domination of multinationals, they do seem to have a differential bargaining power over national companies. There are examples in which multinationals successfully delay the introduction by local companies of generic drugs. Often the multinationals make their demands directly with the Ministry of Health, accompanied by the respective ambassador of the home country of the multinational.[535]

The state has no stakes in the pharmaceutical industry. It is entirely in private hands.[536] But the state did and still has a strong effect on the industry through its regulatory powers. For example, regulatory involvement in setting up the industry starting with the Dahir (decree) in 1960 regarding the law on capital formation. Another example is the price setting Dahir of 1969, guaranteeing margins for producers, retailers and pharmacies (see following sections).

[535] Conseil de la Concurrence, 2011, 53 and 32.
[536] CGEM infos, January 2006.

The government continued regulating the industry with major laws in 1976 and 1977. The sector was quite sheltered up to 2000. Since then it is witnessing a new dynamism with new laws being applied and new Moroccan firms entering the market.[537] These include two subsidiaries of Moroccan firms, Pharmed, a subsidiary of Pharma 5 in 2004 and MC Pharma, a subsidiary of Cooper Pharma in 2006. The leading multinational Sanofi-Aventis also opened a new subsidiary, Winthrop, in 2010. All three have in common that they target the generic drug segment of the market.

There are barriers to entry though. The fact that many drugs are developed and then sold under the protection of a patent is an important barrier to entry. Besides that, there is the issue of acquiring the necessary know-how, and the large capital for investments to develop a production site. Thirdly, there is the need to forge backward and forward linkages. Ensuring adequate distribution of finished products requires investments in logistics as well as marketing. In terms of input, necessary research and development is sometimes outsourced and important linkages need to be established with universities and other research centers. Other necessary linkages are those with outside firms in order to produce medicine under their license and patent. Acquiring permits and importing the necessary inputs requires the forging of relationships with state officials. As noted above, these possible barriers have not prevented some companies entering the market in the past decade.

The presence of multinationals and the heavy emphasis on quality by the state meant that the products were of such standard that they could even be exported to Switzerland.[538] The major decisions and laws originate from the Ministry of Health. It is the central authority that regulates the sector, which ranges from quality control, to approving licenses for new products, to the price setting mechanism of medicine. This guardian role played by the

[537] Interview former President AMIP and CEO of pharmaceutical company, 6 May 2011.
[538] Conjoncture, n. 778, 02/1998.

Ministry of Health is perceived by producers as preventing a better understanding of the sector. The officials from the ministry are mainly concerned with health issues and have little knowledge of the production side of the sector.[539]

The characteristics of the industry in terms of a concentration of production among ten producers, the low purchasing power of the population and the high component of imports for its production meant that it was heavily dependent on past successes and needed the sheltered market with a high price in order to survive.[540] It is a sector that has been and continues to be heavily regulated by the state given the social and health component of its products. This has led to a close relationship with the Ministry of Health which has worked well up until the late nineties. But with the economic reform coming into effect through, for example, the opening up of the economy, the sector faced new threats and opportunities. The next section is devoted to an overview of the context under which the sector operated and organized itself vis-à-vis the state.

7.3 Political Context of Reform

As noted earlier in chapter 5, since the early 2000s, the Moroccan state has been more concerned with the impact reform had on the poorer segments of the population. The drive to tackle the socio-economic impact of liberal reform resulted in the National Initiative for Development, which was launched in 2005. Part of the rationale for this came from the king's positioning himself as the king of the poor. Such positioning enabled the ruling elite to broaden its support base. The 2003 bomb attacks in Casablanca made it more urgent to deal with poverty issues. Many of the perpetrators came from the *bidonvilles* of Casablanca. Although the state response was targeting extremism, it was generally accepted that socio-

[539] Interview Secretary General AMIP and CEO of pharmaceutical company, 3 May 2011.
[540] Conjoncture, n. 778, 02/1998.

economic depravation was part of the explanation. Another important element that drove this pro-poor policy drive lay in the competition between the palace and the Islamist opposition party, the PJD. The latter campaigned more and more on platforms emphasizing socio-economic issues and the fighting of corruption.

Recall from the discussion in chapter 5, that the PJD won the majority of votes in the 2007 elections, but not in terms of seats. Despite the PJD coming second after the Istiqlal party in terms of seats, it did not make it into the 2007 government coalition. But their presence in parliament was felt by the coalition parties, mainly by the traditional Istiqlal party and the leftist USFP. In sum, there was a concerted drive from the top leadership in the country, the king himself to draw support from a wider section of society through pro-poor initiatives. This coincided with a coalition government which ultimately was responsible in executing this strategy, and at the same time saw the opportunity to satisfy part of their own constituency as well.

At the sectoral level, it is first important to note the rising cost of health care. The health expenditures in Morocco increased steadily between 1995 and 2010. As a share of GDP, they rose from 3.9% in 1995 to 5.9% in 2010. This was accompanied with a rising share of health expenditure in government expenditure, from 3.8% in 1995 to 6.9% in 2010.[541] This meant health expenditure was slowly becoming a fiscal burden. The introduction of health insurance reform launched in 2002 is part of the explanation of the rising share of health expenditure in the government budget. This new insurance policy was finalized in 2005 for the formal sector and in 2012 for other segments of the population.[542] The push for health

[541] World Bank Development Indicators.

[542] Medical Assistance Programme for the Economically Disadvantaged (Regime d'Assistance Médicale aux Economiquement Démunis, RAMED) targets the poorest segment of population and came into effect in 2012. By covering the population which does not fall under the remit of the compulsory medical insurance (*Assurance Maladie Obligatoire*, AMO), health care coverage has now been extended

insurance reform needs to be seen in light of the above mentioned drive to alleviate the health care cost pressures of middle class families.

These trends altered the balance of power between the state and the sector. Producers always had close linkages with the Ministry of Health. In the post 2007 election period, the producers were faced with different societal forces with different interests. These interests all converged at the level of the Ministry of Health. The Minister, who came from the traditional Istiqlal party, had to balance these interests. Firstly, the emphasis by the top leadership in the country to increase access to health care to larger segments of the population. Secondly, the Ministry of Finance which imposed its budget constraints due to the rising share of health expenditure. And thirdly, the traditional constituency of the sector which comprised besides the producers, medical professionals, retailers and pharmacists. It is against this background that policy reform was initiated. Before delving into the different policies, the next section provides insights in how the sector organized itself and how divergent interests emerged within the sector and its representative organs.

7.4 The Representation of the Sector

The sector organized itself in 1985 through the creation of the *Association Marocaine de l'Industrie Pharmaceutique* (AMIP). As an organization, it represents its members, holds seminars, disseminates information, and carries out studies. AMIP benefited from the support provided through an EU program aimed at strengthening professional associations. Although AMIP is a member of the main business association, CGEM, it does not work through it in terms of raising its issues with the authorities.[543] It probably did not feel the need to operate through CGEM given the linkages its members had forged over the decades with public

to a larger part of the population. AMO only covered civil servants and private sector professionals, ie the formal sector.

[543] Interview Secretary General AMIP and CEO of pharmaceutical company, 3rd May 2011.

authorities. AMIP had close relations with the authorities, partly due to the presidents that have served at its helm. For example the first president, who served from 1985 until 1990, and again from 1992 until 1997, worked as CEO of Hoechst Polymedic before being called to become the Moroccan ambassador to Bonn in 1997.[544] The previous president, who heads the subsidiary of a multinational, worked for more than a decade at the Ministry of Health.[545]

Since its foundation, AMIP has been dominated by a few figures. A close look at the different executive bureau's throughout the past 25 years is revealing. One of its founders is Abdelghani El Guermai, who is president of AMIP since 2011. He heads a generic producer which he founded in 1978 (Galenica) and is part of the top ten performing companies. He was also one of the founding members of AMIP. He fulfilled different positions within AMIP throughout its existence. For example serving as VP in 2005, and as associate in 1995. Omar Tazi, who is CEO of Sothema (founded in 1976), headed AMIP between 2005 en 2007, while also serving as VP in 2001 under Ezzedine Berrada. Berrada took control of the Bottu company in 1982, after thirty years in which it was subsidiary of a French firm. He served twice as head of AMIP between 1990 and 1992 and again between 1999 and 2003. The founder and CEO of generic producer Pharma 5, Abdellah Lahlou Filali, never served as the president but held various positions throughout the 1990s and 2000s, which included Secretary General and treasurer. Another important figure is Ali Bennis, son of the founder of Laprophan, which was created in 1949 and taken over by the Bennis family in 1960. Ali Bennis held the position of VP and Secretary General at various points in the 1990s. The last important figure to mention is Jawad Cheikh Lahlou, who served as VP of AMIP since its creation and as its president between 1997-1999. He headed the largely Moroccan-owned Cooper Pharma, which was initially created as a French subsidiary in 1933. This brief overview indicates that AMIP was dominated by a few firms and personalities, even though the different interests seem to have been

[544] L'economiste, 09/01/1997.
[545] Interview with former president of AMIP and CEO of a pharmaceutical company, 6th May 2011.

relatively equally represented, ranging from local producers (Pharma 5, Laprophan, Sothema, Cooper, Bottu, Galenica), to multinationals (Hoechst, GlaxoSmithKline), to generic producers (Pharma5, Galenica). Both old firms as well as relatively new ones found a seat in its executive bureau throughout its existence.

One would expect that such a sector, small in size and dominated by ten firms, should be able to act cohesively when dealing with the state. The fact that AMIP seems to have been a relatively well-balanced representative organization also points to the likelihood that the sector would be effective in pushing its interests. The close and direct relationship with the Ministry of Health should facilitate its lobbying efforts. These efforts can be divided into two, defensive and proactive. Defensive when it comes to safeguarding the access to rents it has established, for example tariff protection or price setting with a high profit margin. Proactive when it comes to capturing industrial policy. The sector should be able to attract attention from state authorities when designing industrial policy. Not only because it has value added potential but also because it is deemed as strategic in terms of the nature of the products put on the market. Whether these expectations are born out will be part of the discussion in the sections on the specific policy areas of trade reform, industrial policy and price setting. But before turning to these issues, the question whether AMIP was able to maintain its cohesiveness is answered in the remainder of this section.

Tensions in AMIP were long in the making. Many within AMIP, both national producers as well as multinationals did not feel well represented.[546] Whereas in the nineties it was possible to maintain unity despite rising tensions, things changed in the new century.

[546] L'economiste, 19/11/1998.

In 2005, ten subsidiaries[547] of major pharmaceutical multinationals set up an association called *Maroc Innovation et Sante* (MIS). They emphasized that they remained members of AMIP. They saw an important role for themselves in attracting FDI to Morocco.[548] What distinguishes them from the other members of AMIP is that these are mostly patent holding firms, although some do also produce generics. They constituted a large part of the local market, approximately 69% when they created MIS.[549] The local firms which only produce generics saw the setting up of MIS as an attempt by these multinational subsidiaries to dominate the local market.

In 2007 the rift came to the fore again with the planned expulsion from AMIP of four multinationals with the formal pretext that they had not paid their dues. The multinationals complained that this was a very procedural argument and the fact of non-payment was a pretext in order to force AMIP not to take up members from multinationals in its board and not to allow voting power to be weighed according to the size of the firms. The latter was regarded as unfair by the smaller local generic producers, fearing that such a voting procedure would favour the bigger multinationals.[550]

The consequences of this weaker representativeness could for example be seen by looking at how complaints are being dealt with. For example, in 2003 a new circular came into effect, which regulates how a dossier should be presented when applying for the registration of a generic. The firms producing generics complained in 2005 that it took two years to obtain the authorization, when previously it only took just nine months. This slowed down the development of a market for generics. These complaints were made anonymously in the press.

[547] Eli Lilly, GlaxoSmithKline, Maphar, Merck Sharp & Dohme, Novartis Pharma, Organon, Pfizer, Roche, Sanofi-Aventis and Servier.
[548] La Gazette du Maroc, 20/06/2005.
[549] L'economiste, 14/06/2005.
[550] L'economiste, 12/04/2007 and Interview Secretary General AMIP and CEO of pharmaceutical company, 3 May 2011.

AMIP deliberately did not want to fan the flames, also given that the circular came into being after discussions between the Directorate of Medicine and the technical commission within AMIP charged with such issues: "There is no need now to dramatize the case, the reason for the delay could perhaps be caused by the many important dossiers or excess zeal on behalf of the administration".[551] When AMIP sent out a note asking firms not to approach the Directorate directly but to send their complaints via AMIP, no complaint form was returned.[552] This example illustrates the fact that AMIP did not seem to do well in representing the view of an important segment of its members, namely the generic producers. The fact that they choose to go outside of AMIP to complain, either through the press or directly to the Ministry, reduced the credibility of AMIP as a representative organization.

AMIP became even less representative of the entire sector, when after the multinationals created MIS, the generic producers created their own association as well in 2010. Nine producers split to form the *Association Marocaine du Medicament Generique (AMMG)*. These generic medicine producers did not feel well represented and deemed it better to create a new association to defend their interests. However, this did not mean that all of the multinationals and generic producers left AMIP. Some multinationals stayed for example. This created the awkward scenario in which during the election for a new presidency and a new executive bureau in 2010, the AMMG and the multinationals together were able to force out the existing bureau and surprisingly elect as president a generic producer.[553]

These divisions were not completely defined according to the products being produced. It was neither a division between multinationals and national companies. Some multinationals remained members of AMIP. Nor was it a division between generic producers

[551] AMIP spokesman, LVE, 15/04/2005.
[552] LVE, 15/04/2005.
[553] L'economiste, 08/11/2010.

and patent producers. Many multinationals produce both. Some generic producers, Galenica and Pharma 5, remained members of AMIP and did not join AMMG. Nor is it a division between the old guard and new enterprises. Cooper Pharma, created in 1933, is part of AMMG, while Genpharma which was created in 2001, is also part of AMMG. Finally, to complete the confusion, the president of AMMG also serves as the treasurer of AMIP since 2011.

This division among the producers has been seized upon by the state. Previously the sector used to be received by the Ministry of Health together. In 2009, the new director for medicine at the Ministry of Health received the members of AMIP (now mainly seen as representing the local producers) and representatives from MIS (representing the multinationals) separately for the first time.[554] The practice of meeting them separately has continued. In 2011, the officials at the Ministry decided to meet the three different actors separately.[555]

The rift within AMIP occurred around the time when the Moroccan economy opened up with the implementation of the EU association agreement and the conclusion of new trade agreements in the early 2000s. This was coupled with new policies to liberalize certain sectors while also new policies were implemented to alleviate poverty. The timing of these divisions actually led to open rifts instead of maintaining unity, suggesting that the new economic environment had an impact. This in turn leads to new configurations of state-business relations, going from a situation of close relationship to one were the state is faced with a divided sector. This has profound effects on the ability of the state to design policy. On the one hand, there is a reduced chance of rent-seeking being effective. The interests of the sector are

[554] L'economiste, 16/10/2009.
[555] Interview Secretary General AMIP and CEO of pharmaceutical company, 3 May 2011 and Interview Secretary General Ministry of Health, 28th April 2011.

more diverse and as such do not necessarily lead to unity on those issues on which they do agree. Hence, effective rent-seeking through an encompassing association is not possible. This leaves the state with considerably more freedom of manoeuvre. There is less danger of capture by the sector. At the same time it hampers the support the state can provide to a sector if that sector is unable to channel its interests and be a credible partner for the state. A unified and strong sector is in the benefit of the state as well. This new configuration of state-sector relations thus prevents the emergence of a relationship aimed at developing the sector, moving away from the sheltered phase to one in which the sector can thrive while facing the new opportunities and threats emanating from liberalization. A policy area in which, however, unity was maintained was the reform of the price setting mechanism, which is the subject of the next section.

7.5 The Price of Medicine

For a firm, the price setting of its product is of paramount importance, because along with costs, it determines the profit margin. The margin in turn affects how much the sector invests in developing new medicine and patents. In the pharmaceutical sector, there is also a wider societal component of the price of medicine. This is even more the case in a developing country, characterized by low purchasing power of a large part of the population. In such a context, it is logical to expect a continuous struggle between public authorities and the private sector over what constitutes the “right/just” price. On the one hand a healthy pharmaceutical sector is needed in order to maintain employment and the steady flow of medicine, while on the other hand a “just” price is needed to meet the demand of a poor population.

7.5.1 The Price Reform Process Prior to 2007

The price of medicine is fixed in Morocco according to the Dahir N 465-69, which was agreed upon by an inter-ministerial commission in 1969. The Ministry of Health has a central

role in the setting of prices. This mechanism ensured that the price setting was done in steps which took into account the margins for wholesale retailers, pharmacies, VAT, the cost of production, the margin for the producer and the necessary royalty payment on patents.[556] The formula is therefore quite complicated and therefore not well-applied.[557] It is difficult for the authorities to apply such a price setting mechanism when they have little knowledge about the production side of the sector and are unable to verify the information provided by the producers regarding production costs. It provides ample room for producers to manipulate the price and request exemptions to raise the price. As for generics, the regulations stipulate that a generic product that is put on the market has to be priced 30% below the price of the patented product on which it is based. The subsequent set of generics that is introduced needs to be 5% lower in price than the first series. [558] This process continues up until the 5th series.[559]

Given that the price is not allowed to be determined by market forces but is instead set by the authorities through a formula, leaves room for rent-seeking behaviour. The industry has resisted the lowering of its price based on the argument that too low a price will render it difficult to maintain the standard of quality and continuous investment in R&D.[560]

There has always been an ongoing discussion between the state and AMIP on the price issue and how to reform the price setting mechanism. The industry has for a long time been able to thwart efforts to reduce its prices of medicines. For example Berrada, president of AMIP in the early nineties, did not view the price as the problem, but rather the lack of wider health insurance coverage.[561] The issue of the price came up many times, especially at times

[556] La Gazette du Maroc, 21/06/2009.
[557] Interview Secretary General AMIP and CEO of pharmaceutical company, 3 May 2011, and Interview Secretary General Ministry of Health, 28th April 2011.
[558] L'economiste, 17/04/2011.
[559] L'economiste, 10/02/2009.
[560] Le Matin, 12/02/2009.
[561] L'economiste, 30/11/1992.

of inflation or depreciation or when the price would rise on imported products due to higher tariffs. This was passed on by the producers through the price setting mechanism. Defending against the charge of a perceived high price was done by pointing to the need of investment.[562]

Different Ministers of Health throughout the nineties acknowledged the problem. Interestingly, they did not go beyond the arguments presented by the industry to defend the status quo. Some like Minister Thami El Kyiari just mentioned in 2000 when pressed on the issue that discussions were taking place with the sector.[563] Another example was Minister Abderrahim Harouchi, who claimed in 1993, that indeed the prices were too high for poor patients, but they still remained 40% below those charged in other countries.[564] The issue came up again during the discussion of AMO. But it did not lead to significant changes. Little changed during the time of Jettou as Prime Minister (2002-2007). As can be concluded from the quote below, even the Minister of Health used the arguments put forward by the industry, thereby rendering the issue outside the scope of his agenda.

"Regarding those medicines that are expensive, we seized the opportunity to reflect on this issue in the discussion between the Ministry and AMIP. This is an ongoing discussion. The reason for the expensiveness of medicine is due to a large extent to the high costs of production in Morocco (like energy and salaries)".[565]

In order to counteract public discontent regarding the high price of medicine in Morocco, AMIP undertook a study which concluded that the prices in Morocco were on average 35% lower when compared to the European Union. The reason for the "perceived"

[562] L'economiste, 16/12/1993.
[563] Le'conomiste, 25/12/2000.
[564] L'economiste, 09/12/1993.
[565] Interview with Mohamed Cheikh Biadillah, Minister of Health, LVE, 04/02/2005.

high cost of medicine lay in the low purchasing power of Moroccan citizens, according to AMIP.[566]

The close relationship with the Ministry of Health and the cohesiveness of AMIP in the nineties enabled the producers to maintain the rents through the opaque nature of the price setting mechanism. The fact that Morocco did have successive coalition governments meant that the dossier kept resurfacing. But ministers did not last long enough to make a sustained effort in reforming this mechanism. One also has to bear in mind that ministers came to power, not because of their level of popular support but whether they were member of a party that was willing to take part in the government coalition as envisaged by the king. Elections were, especially in the early nineties, manipulated. The result was that ministers were more interested in their powerbase within the various parties close to the palace and more importantly their individual links to the palace. Added to this was the fact that the private sector in the nineties was becoming more and more organized and perceived as a partner by the state in reforming the economy. It was notably the king himself who favoured a closer reliance on the private sector in overcoming developmental challenges. In this context, it was possible for the pharmaceutical industry to maintain its privileged position.

7.5.2 The Price Reform Process Post 2007

With the coming into office in 2007 of the new Istiqlal Minister of Health, Yasmina Baddou, things started to change. The price setting mechanism was put on the table and was discussed with actors in the health sector, among them AMIP. One of the issues which had to be tackled was the approximately 30% margin enjoyed by pharmacists. They agreed to discuss this in principle. The industrialists did not budge and reiterated that according to them there was no empirical evidence for medicine being overly expensive and that the price of many

[566] La Gazette du Maroc, 21/06/2006.

products went down between 2007 and 2008. They referred to a study commissioned by the government in 2005 when AMO was being launched and conducted by a foreign consultancy. This report concluded that the price in Morocco was below several other reference countries.[567]

Based on the 2008-2012 health strategy, the Minister tried again to get this dossier moving.[568] In devising a new Medicine Strategy she insisted on a reduction of the price, claiming that the prices were too high compared to other countries. She invited the industry to tackle this issue. Even though they agreed that a new price setting mechanism was needed, they reiterated their arguments about the dangers to the profitability of the industry. Nevertheless, the Minister announced that she intended to lower the price every five years by 5%.[569] In order to do this a commission was being created to investigate what could be done to revise the procedures for price setting. The president of AMIP was content to "note that the Minister understood the sector and had a clear view on the actions to take".[570] The Minister was subsequently locked in fruitless negotiations with producers for a year regarding the new price setting mechanism.[571]

Partly because of a lack of progress on this issue, the USFP[572] party initiated in January 2009 a commission of inquiry into the price of medicine.[573] The leftist party probably saw in this issue a useful political opportunity to exploit in its electoral battle with the opposition Islamist PJD. The Minister of Health welcomed the idea of a parliamentary committee. This

[567] LVE, 20/06/2008.
[568] Interview Secretary General Ministry of Health, 28th April 2011.
[569] Le Matin, 12/02/2009.
[570] Ibid.
[571] L'economiste, 25/12/2009.
[572] A leftist party which was part of the coalition government.
[573] L'economiste, 27/10/2009.

came up according to the socialist parliamentarian Khaled El Hariry[574] during the discussion of the national budget. In order to thoroughly look at the pricing issue a separate ad hoc commission was set up with MP El Hariry as its rapporteur.[575] For the minister, this was of particular interest. It provided an opportunity to find allies for the reforms she was going to push for during the remainder of her tenure. The price was a key issue, not just from a socio-economic point of view, but also because it was necessary from a fiscal point of view, i.e. safeguarding the social insurance funds.[576] One of these funds saw 47% of its reimbursements go to medicine.[577] Interestingly, because it was decided to set up this ad hoc commission when the national budget was being discussed, it was therefore not coming from the Commission on Social Affairs, under whose prerogative Health falls. The commission was composed of both opposition as well as governing coalition parliamentarians.[578]

The report was discussed with other parliamentary Commissions (Finance, Social sectors, economic development) and a consensus emerged for the need to follow up on the issues flagged by the report. The rapporteur, El Hariry, came out publicly to provide more information on the report. The main conclusion was that the price was too high and that both the industry and the Ministry regulating the price were to blame for this.[579] According to the figures collected by this group of MPs, Moroccans paid for 12 products between 2004 and 2008, 1,13 billion DH more than Tunisian consumers. For some of the products, the price difference with Tunisia could even be 189%, or 70% if compared with the price in a developed country like France. Large differences applied to both generics as well as patented products and there were even differences in price within Morocco, up to 600% for different brands and

[574] Already in 2002 did El Hariry write an op-ed in L'economiste of 25/06/2002 on the issue of intellectual property rights and the price of medicine. Back then he was a VP of APEBI and president of FITAV (both associations representing various companies in the IT sector).
[575] Interview with rapporteur ad hoc commission on price of medicine, 04 May 2011.
[576] L'economiste, 10/02/2009.
[577] Rapport de la mission d'information sur le Prix du Medicament au Maroc, 3 november 2009, 6.
[578] Ibid., 3.
[579] Ibid., 4.

300% for the same brand. Furthermore, the most expensive products were bought at higher rates than comparable and less expensive generics.[580] The high cost could render the financing of AMO more difficult. The report concluded that the high prices were a direct result of the commercial practices of the sector and were being perpetuated by the price setting mechanism of the Ministry of Health.[581]

In terms of measures to take, the report recommended stopping reimbursement of expensive medicine through AMO. In order to lower the prices, a new price setting mechanism should not remain the sole prerogative of the Ministry of Health. Such a new mechanism should include different actors, like medical professionals, insurance organizations and the newly created Competition Authority.[582]

Naturally, AMIP reacted defensively. Attention was again drawn to the high cost of production, the need to maintain quality standards and the low purchasing power of the population.[583] The president of AMIP also pointed to the difficult challenges facing the industry due to the recession and the free trade agreements coming into effect. AMIP questioned the methodology of the report and pointed out the major differences between Morocco and the benchmark countries with which it was compared. It rejected the charge that it was mainly responsible for the high cost of medicine in Morocco. The president of AMIP henceforth saw the report as a first step towards the development of a national policy on medicine. For him, there was a clear need to discuss the price issue in conjunction with all other issues relevant to the industry and invited all actors to take part in this discussion. Given the high priority attached by the king to access to health care, the president of AMIP did see the need for a reorientation of the health policy which would have a beneficial effect on the price of

[580] Ibid., 4-5.
[581] LVE, 09/11/2009.
[582] Le Matin, 10/11/2009.
[583] Ibid.

medicine. [584] The president also pointed to the fact that the sector was already in discussion with the Ministry of Health on this subject for almost a year.[585]

In order to defend itself, AMIP planned to carry out its own study into the price of medicine. The industry response focused on the cost of production, pointing out that part of the profit margin was consumed by retailers and pharmacies. A just comparison would look at the cost of production and leave out VAT and the margins of intermediaries. AMIP took the opportunity to press the government to take into account the cost of R&D and to promote the sales of generics, when designing a new price setting mechanism.[586] In doing so, AMIP was attempting to reconcile the needs of both its main constituents, the multinationals, and the local generic producers.

The study, which was carried out by an independent consultancy (MedInfo), was based on a larger sample (3069 products versus 15 in the parliamentary report) and took into account the specifics of the Moroccan and the Tunisian pharmaceutical market. Important differences were the purchasing power of the population and the fact that the industry was subsidized in Tunisia. The report concluded that the price increases in the past 15 years were modest, ranging to a maximum of 7%. Even though it effectively undermined the conclusions of the parliamentary report, MedInfo insisted that this report should be seen as complementary. Of interest was the fact that the study moved beyond just rebutting the earlier report, and included recommendations. Most notably among them the need to enlarge health insurance coverage in order to increase the market and to reduce the prices in steps.

[584] Le Matin, 27/11/2009.
[585] L'economiste, 18/01/2009.
[586] LVE, 23/11/2009.

But before the conclusions of their study became public, some of the firms sent applications to the Ministry of Health requesting the lowering of the prices of some of the products. This move was perceived as a direct reaction to the publication of the parliamentary report. The applications were taken into consideration by the Ministry.[587]

According to preliminary leaking of the outcome of the ongoing negotiations with the Ministry it was reported that the public authorities were considering taking further steps in reducing the price.[588] In January 2010, the Ministry followed up on this and announced that close to 160 medicines would be up for a downward revision of their prices.[589] The Minister was intent on making 2010 the year of lowering the price of medicine.[590] In collaboration between the minister and the producers, the prices of a further 178 products were reduced.[591] Despite this lowering of prices pushed for by the Minister, her tenure did end without putting in place a new price setting mechanism.

This reform process underscores the changing dynamics in state-business relations in Morocco. Taking this issue up anew by the state showed that the dynamics had changed. Whereas in the past, the sector was effective in thwarting efforts of changing the prices, in the post 2007 period it found a state which was less receptive to demands of the sector. And in doing so the state became more representative of interests of other segments of society. It did not shy away from taking unpopular measures (but popular among the wider public).

The association, although still defending itself, was more eager to work with the state, rather than oppose the proposed policies. Part of this was because it recognized the

[587] LVE, 14/12/2009.
[588] LVE, 01/02/2010.
[589] L'economiste, 25/01/2009.
[590] L'economiste, 25/12/2009.
[591] L'economiste 26/05/2010.

importance attached to health care access by the nation's top leadership, i.e. the king. The fragmentation which plagued the sector in the past few years did not affect their lobbying activity on this issue. In a sense, state capacity to enforce policy was just partially successful. Producers proved still effective in stalling the establishment of a new price setting mechanism. Two years after the parliamentary report, there were only discussions and proposals being tabled, but no new decree or law being put in place.

The timing of the reform was a result of the need of the ruling elite to broaden its support base. This meant that the balance of power worked against the producers. As a result, their rent-seeking activities were less effective than in the previous decade when the call for price reform were effectively stalled by the producers. Reforming the price of medicine was a lower priority for the state. The nineties were generally regarded as an era in which the state cultivated the private sector as a partner in economic development in the liberal era. The effects of reform on the general population were not as high on the agenda as in the post-2003 era.

The interactions between the state and the sector against the background of pressures from other parts of society did not lead to a fundamental overhaul of the price setting mechanism. It did, however, lead to a selective lowering of the prices on the part of the producers. Despite the changing balance of power and the internal fragmentation of the sector, the producers still managed to partially stall reform initiated by the state.

7.6 Developing the Sector

State-sector interactions were not limited to reducing the rents emanating from the price setting mechanism. The state, in its capacity as a major purchaser of medicine for the public health sector, had a strong interest in the promotion of generic products. This interest

was mainly driven by fiscal considerations. In this sense, it actively attempted to change the composition of the sector towards more generic drug production. This policy drive is discussed in the next subsection. The other two concern the sector more as a whole. These subsections deal with industrial policy pursued by the state and with reforming the old and archaic investment laws.

7.6.1 Redirecting the Sector towards Generics

There was never a well-developed policy in Morocco to promote the production of generics. Given the low level of insurance there was no incentive structure through which insurance companies could pressure consumers/patients, through reimbursement policies to only buy generics. Similarly, given the absence of a mandatory health insurance in Morocco up to 2005, the government budget and the social insurance funds had no incentive in promoting generics.

The market for generic medicine witnessed a boom in the years 2003-2007 with a surge of 65% in volume. Up to 90% of the medicine used in the public health sector is of a generic origin with less than 25% in the private sector in 2007.[592] Part of the rise can be explained by the newly introduced health insurance coverage. The insurance policy was first discussed in 1992, only to be implemented in 2005, after a basic law was agreed in 2002. To keep the budgets in check, there was a strong financial incentive to urge patients to buy generic products.[593] The budget for medicine at the ministry grew from 484 million dirham in 2007 to 1,24 billion dirham in 2010.[594] AMIP was aware of the possible effect of the introduction of more widespread health insurance. Producers realized it would ensure a greater demand for generics. Hence, although in general it was in favour of more health

[592] L'economiste, 17/04/2008.
[593] Ibid.
[594] L'economiste, 26/05/2010.

insurance because it would lead to a bigger market, AMIP was not pushing too hard or in the words of AMIP:" hence why we urge prudence on this matter".[595]

According to the director of medicine at the Ministry of Health there was a keen interest in developing the generic market in Morocco. One reason for this, was the fact that generics were a strong component of the Moroccan pharmaceutical exports. This large share was helped by the classification of Morocco as part of the European zone in terms of the quality of its products.[596] From 2007 onwards there was thus the political will to develop the generic market. An open meeting with all the different actors was organized in order to seek their inputs. This ranged from producers, to practitioners and pharmacies. An international consulting group was hired to write the report on promoting generics. After open tender the contract was awarded to the Boston Consulting Group (BCG).[597]

When the BCG study was finished, the Minister was making the case for overhauling the system through which the margins were calculated for pharmacists in order to pressure them to use more generics. The goal was to increase the use of generics to 45% after three years.[598] One of the reasons why generics were not more widely sold has to do with the fact that in Morocco a pharmacist is legally not allowed to deviate from a prescription. There is no discretionary room for a pharmacist to decide to sell a generic instead of the patented one prescribed by the doctor.[599] Another factor hampering the development of generics, is the bias of doctors against prescribing generics.[600] If the insurance starts reimbursing on the basis of the price of a generic, it will lead to more demand for generics and thus change production towards generics. For the Minister, the generics were the future for the sector and the policies

[595] L'economiste, 28/05/1999.
[596] L'economiste, 17/04/2008.
[597] Interview Secretary General Ministry of Health, 28th April 2011.
[598] L'economiste, 21/01/2011.
[599] L'economiste, 27/03/2009.
[600] L'economiste, 26/01/2010.

were directed towards making the industry restructure and reorient towards the production of generics.[601]

In order to promote generics, the Minister proposed to allow the pharmacists to substitute at the counter a generic for a patented good if it existed, despite the prescription by the doctor.[602] One of the other measures through which the Ministry of Health was promoting generics was through the purchases made by the public health sector. Of all the purchases made by public hospitals and other public health entities, 90% of the volume was in generics (corresponding to 70% in terms of value). The orders to buy were made to national companies rather than imported. By using a new method through a centralized purchasing strategy directed by the Ministry of Health, the price of many products went down. The purchases were made directly at the producers end, bypassing retailers.[603]

The fiscal constraints facing the government and the insurance funds have led to a strong drive by the authorities to develop the pharmaceutical sector towards producing more generics. Among other things, it meant that the state through its purchasing powers was able to encourage more generics being bought. This has led to a marked increase in the production of generics. The sector also received a boost from the introduction of AMO. At the same time, a section of the producers, the generic producers, found an ally in the state. This could have exacerbated the old tension within AMIP between generic producers and patent producers. One could claim that the generic producers were emboldened because of the state drive to promote generics. The fact that these generics were at the same time mostly national companies can be interpreted as a way by the state to indirectly support a sector that was facing increasing international competition (see section on the opening of the economy). A

[601] L'economiste, 25/12/2009.
[602] L'economiste, 26/05/2010.
[603] L'economiste, 15/06/2011.

more direct approach to support the sector was possible through industrial policy. Incorporating the sector within *Plan Emergence* could benefit the sector in meeting its challenges.

7.6.2 Industrial Policy and Inclusion in *Plan Emergence*

As discussed in chapter 6, the Moroccan authorities devised a national strategy for upgrading the Moroccan economy, after the international consultancy firm McKinsey wrote an in-depth report on the Moroccan economy in 2005. The idea was to focus on a few key sectors and actively provide them with assistance through state funds. The chosen sectors included offshoring, electronics, aeronautics, automobile, textiles, sea food and agro-food. As such there was "an attempt to endow the state with a more active and visible role in promoting and administering industrial policies. Many instruments that had existed before were repackaged and re-defined in order to fit within a comprehensive framework called Emergence Program (Take-off Program) with a direct endorsement by the Moroccan king. For instance, the upgrading policy, labelled "competitive modernization" under the new program was revisited and endowed with more funding from the state budget. A new version of the Emergence Program has been approved in 2009 and has been one of the key government's policy pillars."[604] Unfortunately for the pharmaceutical sector, it was overlooked by the state in these programmes. This was probably due to the fact that there was less familiarity within the Ministry of Industry and Commerce with the sector and its specific characteristics and needs.[605]

The ties the sector forged with the Ministry of Health proved thus a hindrance when it came to supporting the sector. The decrease in protection and the increase of competition prompted AMIP to seek support from the Ministry of Industry and Commerce. In 2006, AMIP

[604] Achy, "Structural Transformation," 13.
[605] Interview former President AMIP and CEO of pharmaceutical company, 6 May 2011.

initiated discussions with the Ministry of Health and the Ministry of Industry and Commerce on how to be included in *Plan Emergence*.

Meetings which included both officials from the Health Ministry, the Ministry of Industry and Commerce and AMIP led to an agreement to outsource a study to BCG.[606] The process was very encompassing and took almost two years, from 2007 until 2009. The study was launched in early 2009 and looked into the strength and weaknesses of the sector and came up with a 10 year plan on which the authorities could base their support. The study was paid for by both the agency for the promotion of SME's as well as the Ministry of Industry and Commerce.[607] The vision laid out was for the years 2010-2020. Unfortunately, the report was shelved after it was presented. AMIP wanted it to be implemented in 2010, but had to face the fact that it would not be implemented before 2013. Instead the Ministry of Health carried out a new study in total secrecy, again using BCG, and produced a report on generics and pricing (see previous sections). It seems the Ministry was using the delay of including the sector in *Plan Emergence* in order to prompt the producers to compromise on the dossier of the price and the dossier of generics.[608] If this was the case, then the horizontal coordination between the Ministry of Health and the Ministry of Industry and Commerce came at the expense of the producers. The Ministry of Health had a stronger priority in increasing the production of generics than it had in the overall development of the sector. At the same time, the sector was not deemed important enough by the Ministry of Industry and Commerce to become one of the key industries supported through *Plan Emergence*. As such, the sector was not pro-active enough to capture industrial policy when it was being prepared in the early 2000s. AMIP could at the most react and retroactively seek to be included in the industrial policies of the state.

[606] It is interesting to note the dominant position of BCG in the health consultancy in Morocco. It was closely involved in supporting AMIP to seek support from Ministry of Industry and again in writing the latest report on promoting generics and reducing the price for the Ministry of Health.
[607] L'economiste, 30/04/2009.
[608] Interview Secretary General AMIP and CEO of pharmaceutical company, 3 May 2011.

This finally happened seven years after the discussions started. The agreement to be included in *Plan Emergence* was signed between the state and all three organizations representing the sector, MIS, AMIP and AMMG in April 2013.

7.6.3 The *Code de Pharmacie*

A policy area of vital importance for growth and development is the one concerning investments. Promoting growth means that laws need to be adapted to the new environment of a more open economy. There are different laws that regulate investments on a macro level, but there are codes and laws which regulate specific sectors.

One of the most eagerly awaited laws by the pharmaceutical industry was the law that would liberalize the rules concerning the establishment of a pharmaceutical company. The old law, dating from a Dahir in 1960, stipulated that the capital of any firm involved in the production, distribution or sale of medicine in Morocco be owned for 51% by a pharmacist who works in Morocco, or 26% for those who have been allowed to practice in Morocco. This meant that it was more difficult for foreign companies to invest in this sector unless they collaborated with a national. However, the old law was easy to bypass, a fact many multinationals took advantage of.[609] While Morocco was opening up its economy it lacked the proper instruments and laws to attract investments. This is why the producers were so keen on having the 1960 law changed.[610] For example, French pharmaceutical investors were reluctant to invest in Morocco due to the law of 1960, which was perceived as archaic.[611]

[609] Interview Secretary General AMIP and CEO of pharmaceutical company, 3 May 2011.
[610] L'economiste, 17/10/2003.
[611] L'economiste, 29/1/2001.

The lack of progress prompted the president of AMIP to raise the issue with greater urgency and more vocally in 2002.[612] All in all, the new law was 15 years in the making.[613] AMIP was part of getting the discussion on the new *code de pharmacie* going. A long discussion between the sector and the government followed about the new code.[614] Many hurdles came up and the legislation was held up at one point at the highest cabinet level.[615]

The new *Code de la Pharmacie* was drafted and sent to parliament during 2005. It was blocked in parliament and many amendments were proposed which needed careful consideration. Different actors in the Moroccan health sector had certain grievances on elements of the law. This caused a delay, which in turn led to a certain anxiety among the producers. In order to put pressure on the Ministry of Health and parliament, the producers drew attention to the fact that without this liberalized regime, the sector would suffer. For example, AMIP referred to the newly agreed free trade agreement with the US in 2004 and the need to attract FDI from the American pharmaceutical companies. A planned visit in January 2006 by these companies to Morocco would be useless unless the code was adopted. "The visit by the American investors has no value added because the liberalisation of capital has not been put into force".[616] This position was put into writing and sent as an open letter to the Ministry of Health. The US market was vital for the Moroccan producers, especially the generic producers. Large investments were needed, not only from foreigners but also from local institutional investors. AMIP urged the Ministry to issue a decree that would change only article 9 of Dahir 1960 and deal with the rest of the law at its own pace.[617]

[612] L'economiste, 15/4/2002.
[613] LVE, 13/01/2006.
[614] Interview Secretary General AMIP and CEO of pharmaceutical company, 3 May 2011.
[615] L'economiste, 23/04/2003.
[616] Interview with Omar Tazi, president of AMIP, LVE, 13/01/2006.
[617] LVE, 13/01/2006.

The new law 17-04 was finally adopted in early 2006 by parliament. This important piece of legislation was a milestone for the pharmaceutical industry as it did liberalize certain aspects of the laws regulating the industry, which the producers sought. Most importantly it dealt with the provisions on shareholders. The new law just puts as a condition that the company be Moroccan. In the new *Code de Pharmacie* (article 75 and article 85 which deal with establishing a firm) there was no mention of a capital requirement of 51% from a Moroccan investor.[618] Despite this, there was unease among the producers about the law drafting process. AMIP was unhappy about the last minute changes made to the law when they passed the second chamber of parliament. The impression was that these changes were made after lobbying by specific producers and retailers.[619] These last minute changes to the code were not shared with the whole sector.[620] It did however induce some of the companies to increase their investments. One of the multinationals was building the largest distribution centre in Africa in Morocco. This decision came after the implementation of the code in 2006.[621]

This policy process illustrates the lack of a coherent strategy and implementation of the state of its reform program. On the one hand there is a sector which has been largely regulated through one ministry. This has benefited the sector not only in terms of these laws, but sometimes even more importantly the lack of strict application of the law, like in the case of capital requirements. On the other hand, the Ministry of Industry and Commerce and the Ministry of Foreign Affairs are continuing with the opening up of the economy by signing different free trade agreements. The lack of horizontal coordination between the Ministries is a hindrance in providing support to the sector while it is adapting to a more liberal economy. The opening up of the economy has important implications for the sector, which the producers

[618] Bulletin Officiel, Nr. 5480, December 2006.
[619] L'economiste, 18/05/2006.
[620] Interview Secretary General AMIP and CEO of pharmaceutical company, 3 May 2011.
[621] Interview Committee member Medicine, MIS, 12 May 2011.

started to realize early on. Hence their desire to put an end to the old laws that are not always rigorously enforced. The producers pushed for the adaptation of these laws to new circumstances. However, this process follows a different trajectory at a slower speed, leaving the sector exasperated. What is of interest to note here is that the industry was weak in putting this policy more forcefully under the attention of the state. The benefits of the old laws and the fact that they were not always enforced started to be outdone by the costs of foreign competition and lack of investment. It was only after the weaknesses of the sector started to show, mainly due to this outside competition, that the state embarked on revising the law. The sector used the new notions of the need of openness to foreign investment as an argument to press the state to speed up the process of ratification of the law. The fact that the sector was very much tied to the Ministry of Health proved to be again a disadvantage. The Ministry has different priorities, which are mostly related to the quality of the health care system and less with the overall development of the sector. The fragmentation of policymaking and the lack of horizontal coordination between state institutions exacerbated this lack of interest by the Ministry of Health.

7.7 Opening Up the Economy

Since the start of the structural adjustment program, Morocco embarked on a steady dismantling of its tariff structures, which was followed by an association agreement with the EU in 1996 and the signing of multiple free trade agreements in rapid succession in the early 2000s.

AMIP was closely involved in the negotiations on tariff reduction in the early nineties and was able to maintain some protective barriers. The producers did not oppose opening up the sector to foreign competition. The special place of the sector in terms of the building up of know-how and the need to ensure safe products enter the country meant that the same rules

were applied to importers as to local producers in terms of permission requirements by the Ministry of Health. At the same time, AMIP sought from the Customs Office a reduction in tariffs for the imported materials needed for the production of medicine.[622]

The consultations between the government and AMIP regarding protection led to a complicated compromise in which the producers received some protection for the local market while at the same time benefited from lower tariffs on raw materials. They managed to get import tariffs on raw materials that have a usage for medicine production down to 0% (some from a high of 17,5% and others from just 2,5%). Other inputs that could be used for packaging of medicines witnessed a fall from 40% to 25%. At the same time AMIP made a case for an increase in the price of medicine based on higher production costs in 1992. This was granted by the ministry. In effect producers had a double benefit, a reduction in the price of imported inputs and an increase of the price of medicine. Tariffs on products that are imported but are produced locally as well, remained in place.[623]

The same close relationship between the government and AMIP was not apparent in the phase of negotiations for several bilateral trade agreements. Most notably the free trade agreement with the US, which was concluded in 2004 and went into effect in 2006. It was only after Prime Minister Driss Jettou (2002-2007) gave the order that the official negotiators of the free trade agreement with the US finally met with the producers who were up to then not properly consulted.[624] Free trade agreements are negotiated largely outside the reach of the private sector. In the case of the free trade agreement with the US, the pharmaceutical sector was briefly consulted, and some suggestions were taken on board.[625] AMIP did extract a guarantee from the government that the negotiations of a free trade agreement with the US

[622] L'economiste, 30/11/1992.
[623] L'economiste, 09/09/1993.
[624] L'economiste 10/11/2003.
[625] Interview former President AMIP and CEO of pharmaceutical company, 6th May 2011.

were conducted on the basis of WTO regulations. The precise text of the agreement was unknown to the producers at the time of the signing.[626] It underscores again the nature of the negotiations in which the official negotiators are unaware or do not take into account the concerns of the pharmaceutical industry. It even runs counter to the policy of the Ministry of Health to promote the production of generics. This underscores the lack of horizontal coordination between bureaucracies and the fragmented nature of policymaking in Morocco.

In a meeting with Prime Minister Jettou after the singing of the agreement with the US, AMIP representatives made it clear that they did not object to liberalization, but that they did need accompanying measures to strengthen the sector.[627] What is clear from this brief overview of the sector dealing with the opening up of the economy is that whilst the producers were able to put some brake on the dismantling of the tariff structure they were unable to dictate the pace of the signing of free trade agreements. The association had strong relationships with the Ministry of Health but less so with the ministries dealing with these free trade negotiations. The level of influence which was there in the early nineties seems to have decreased significantly in the early 2000s, leaving the sector more a bystander unable to influence policy the way it used to.

7.8 Conclusions

The case study of the pharmaceutical sector in Morocco leads to interesting observations regarding the changing nature of state-business relations in Morocco. The wider political context is of importance in this case. The authorities were paying more attention to human development, especially after 2005 with the creation of the National Initiative for

[626] L'economiste, 05/03/2004.
[627] L'economiste, 19/03/2004.

Human Development. Although this initiative mainly targeted the rural areas, it did also mean that there was an attempt to broaden the support base of the monarchy towards the growing middle class and the urban areas as well. Introducing the long awaited health insurance coverage in 2005 was part of this strategy towards a more pro-poor development model. This is the political explanation why the Ministry of Health since 2008 was more adamant in pushing for a price reduction and for the more widespread production and sale of generics. Besides this more general trend of government policy towards a more inclusive growth model, the fiscal constraints were another driver for the Ministry of Health strategy since 2008. Introducing the insurance coverage led to a surge in the reimbursements by the social insurance funds. In order to keep the budgets under control it was imperative to finally push more forcefully on the issue of the price of medicine. In terms of rent-seeking behaviour, it is clear that the sector is still able to exert counter pressure. This was manifested when it came to tariff reductions, but also in successfully resisting the introduction of a new price setting mechanism. However, unlike the nineties, the producers did have to give in to the wishes of the Minister to lower the price of a large range of products, thereby foregoing an important rent.

While the sector was highly concentrated, composed of relatively few producers, an association was only set up after the structural adjustment program had started in Morocco. The sector was able to maintain unity, most probably made easier because of its successful rent-seeking behaviour in thwarting efforts to reduce the price of medicine. The sector was unable to maintain unity in the face of the continued liberalization of the economy. The emergence of producers of generics, partly as a result of state action to promote generics, led to fragmentation and eventually three associations. The lack of a strong and encompassing association rendered it difficult to emerge as a credible and reliable partner for the state in seeking new policies.

The sector had for many decades developed close ties to the Ministry of Health, but at a time of antagonistic relations not to have other linkages to other ministries as leverage has become a liability. Worse, despite being a sector with a high level of R&D and human capital they were overlooked when the authorities were devising *Plan Emergence*. Even though they were initially successful in getting the Ministry of Industry and Commerce to finally pay more attention to their sector it is very much likely that little progress was made in implementing the recommendation of the study because the sector was blocking the reforms proposed by the Ministry of Health. Coordination at the cabinet level has most probably ensured the delay of agreeing on support for the sector by the Ministry of Industry and Commerce. Hence, the specific pre-reform state-sector relations are an obstacle to the development of the Moroccan pharmaceutical sector.

The state, through the Ministry of Health, has the knowledge and experience to deal with the health aspects, but hardly any expertise on the production side of the sector. And even when it comes to designing a health strategy, it still has to rely on a foreign consultancy company to deliver the studies. The same applies to the Ministry of Industry and Commerce. Because the producers historically dealt exclusively with the Ministry of Health, there is little institutionalized expertise in the other branches of the government. This comes to the fore in the lack of consultation when the free trade agreements were discussed or when the *Plan Emergence* was designed. The sector was simply neglected. This points to a fragmentation of policymaking, with little horizontal coordination that could benefit the sector. The pre-reform state sector configuration of a close relationship with the Health Ministry of a mostly rent-seeking nature was an obstacle in finding new forms to support the sector. Analysing this sector through a process tracing approach made it possible to see how rent-seeking opportunities were affected by wider societal transformations.

8. General Conclusions

The academic discussion and the wider public debate on the origins of the Arab Spring has led to the generally accepted conclusion that the social contract between the regimes and their populations had broken. The strong presence of crony capitalism in many of the countries affected by uprisings, was seen as making a significant contribution to this. Close ties between business elites and the regime led to a corrupt patron-client network which fueled feelings of injustice among large parts of society. In this dissertation, I sought to analyze the evolution of state-business relations in Morocco, a country less affected by widespread and violent uprisings. Similar to some of the countries which underwent serious turmoil, Morocco's state-business relations display characteristics of crony capitalism. A highly concentrated private sector enjoyed, and still enjoys, close relationships with the top echelons of the state. I argue that close ties between the state and a concentrated private sector need to be analyzed in the wider context of other state-society relations. I demonstrated that the evolution of state-business relations can best be understood if analyzed within the wider political economy of Morocco. In particular, I found that the formation of cross-cutting coalitions by the regime, the fragmentation of political and economic forces and the changing nature of the role of the state can offset the potentially negative political repercussions of crony capitalist state-business relations.

The findings in this thesis suggest that state-business relations in Morocco were embedded within a fragmented-multiclass state. As such, the potentially negative aspects of a concentrated patron-client network were offset by the need of the regime to balance its alliances across various segments of society. The state, and by extension the regime, were never captured by one particular segment in society. Private sector interests competed with other segments of society for benefits from the regime which were partly allocated through

state channels. One tool through which the Moroccan regime repeatedly sought recourse to was fragmentation.

This fragmentation works at different levels. I showed how fragmentation affected political parties, while at the same time it was and still is visible in the myriad state agencies with often overlapping mandates. Furthermore, fragmentation also affects economic actors. This was evident in the case of the pharmaceutical industry which could not maintain unity in terms of its representative organs. A similar process almost occurred in the textile industry, except that unity was eventually maintained after a long struggle within the representative association. Finally, the concentrated nature of the formal private sector did not mean that businessmen acted in a consensual way. Economic interest and rent-seeking often led to vicious and openly fought battles, as was illustrated by the example of the private developers vying for government contracts under the Cities without Slums programme.

I suggest that the origins of the close relationship between the rulers and a small circle of businessmen can be traced back to the pre-protectorate period. Weak state control of the countryside prevented the emergence of a strong landowning class which could invest its surplus from agriculture in industrial ventures. Volatile security as a result of rural unrest drove the emerging merchant class closer to the sultans. Rent-seeking of monopoly rights led to a merchant class mostly interested in commerce. Some autonomy vis-à-vis the sultan was made possible through foreign protection, although this came at the expense of encroachment on Morocco's sovereignty. This eventually resulted in the establishment of the protectorate by the French and the Spanish.

Similarly, I showed that the fragmented nature of the political economy of Morocco finds its roots in the pre-protectorate period. Various sultans relied on different coalitions to

maintain power. These coalitions could range from forging alliances with rural tribes in order to furnish the sultan with the foot soldiers for his army, to relying on urban-based religious orders to strengthen the legitimacy of the sultans' rule. These coalitions could change during the lifetime of a sultan or when succession occurred. Therefore, a defining feature of pre-protectorate Morocco was the shifting support-base of the sultan who could not rely on a strong central state, despite various reform efforts.

I argued that a critical juncture occurred with the institutionalization of the French protectorate in Morocco. A key feature of the protectorate was the establishment of control over the territory. The French maintained that control largely through local strongmen and rural notables. As for the Moroccan business community, they initially benefited from the protectorate. However, discriminatory laws and unfair French competition coupled with the adverse effects of the Great Depression and the Second World War drove the urban-based business community into the independence movement. The sultan, who was kept by the French as a nominal figure stripped of most of his powers, eventually sided with the nationalists against the French.

I suggest that the foundations of the fragmented-multiclass state in Morocco, were further strengthened by the power struggle that ensued after independence between the nationalists and the monarchy. Sultan Mohamed V turned King Mohamed V ensured the control over the coercive apparatus and struck an alliance with the rural notables against the predominantly urban-based nationalists. Splits within the nationalist movement further exacerbated the fragmentary nature of politics in Morocco. Part of the business community was co-opted through state protection in the 1960s, while the rural areas benefited from agricultural policies and the rural notables increased their wealth through selective land distribution. Economic development policy was often haphazardly put together and executed. I

show that this is often the result of fragmentary politics. Different interests colluded or competed depending on the balance of power between these different interests. Oftentimes, agencies were set up in which all stakeholders had a seat, eventually leading to deadlock. Paradoxically, this also prevented the state agencies from being captured and dominated by one societal faction through fiefdoms.

While state-business relations became closer in the aftermath of independence, this relationship should be seen within the context of the alliance the monarchy had built with the rural areas. A critical moment occurred in the early seventies when state-business relations led to an endemically corrupt patronage system, because the monarchy allowed state resources to be captured by connected businessmen. I show that this has to be understood against the background of the decision made by King Hassan II to rule by royal decree after 1965. This eliminated any possible countervailing power that could have resulted from political factions.

The king's reliance on a small group of businessmen, the army and rural notables proved to be too narrow. Escaping unscathed from two military coups, the monarchy set about enlarging its support-base by creating new cross-cutting alliances. Tentative political opening and the Green March on the Western Sahara galvanized political parties. Furthermore, Moroccanization of enterprises ensured the loyalty of technocrats and a new class of businessmen. In addition, more land distribution strengthened the alliance with the rural areas. Finally, export revenues from the rising phosphate prices and foreign debt were used to deliver jobs and social services to the urban areas. The role of the state in the economy was strengthened through a multitude of public enterprises. Although the private sector benefited from the protection of the state and the resources made available, I show that the private sector was just one of the beneficiaries of the early 1970s state expansion.

Due to rising debts, continuation of the import-substitution policy was deemed unsustainable. Hence the need for fiscal austerity, which was agreed upon with international financial institution in return for financial assistance and debt restructuring. When Morocco embarked on this structural adjustment programme in the 1980s, different interests were taken into account, beyond just those of the private sector. Despite the close relationship between the state and the private sector, liberalization of the economy did take place even if this meant that economic sectors were adversely affected. However, the programme was implemented in such a way as to minimize societal unrest, which was not always achieved. I show that because regime stability rested on limiting urban unrest, the negative fall-out from austerity needed to be avoided as much as possible.

State-business relations underwent a profound change in the 1990s. Several factors are of importance. I showed that key to understanding the long-term effects is the timing of these changes. I recall that the king increased his economic position through the ONA conglomerate even before structural adjustment took place. His business interests were firmly implanted in the banking sector, but also in various other parts of the economy. This increased concentration of economic power took place prior to the political opening in the 1990s. More importantly, they also took place prior to the anti-corruption campaign waged in the mid-1990s against various business interests. The cumulative effect of these developments was that King Hassan II ensured a smooth transition to his son after his death by allowing former opposition parties to form a coalition government. At the same time, through his business interest and the anti-corruption campaign, no autonomous economic loci of power could emerge to challenge the monarchy.

The concentrated nature of the private sector and the dominance of the kings' conglomerate affected state-CGEM relations negatively. Although, CGEM gained an

institutionalized place in various government fora, it remained captured by large business groups in Morocco. This reduces its representative function as a mouthpiece for the formal private sector of Morocco.

I highlighted how Morocco, although still a fragmented multiclass-state, started to show characteristics of a cohesive-capitalist state under Mohamed VI. It is still a multi-class state because of further proliferation of political forces and their incorporation into the political domain. Islamists were allowed to strengthen their position in formal politics, essentially competing with the former opposition parties for the urban middle class vote. Incorporation of newly emerging elite, mostly rural but also urban, was achieved with the emergence of the PAM in the late 2000s.

It became more cohesive-capitalist due to the emphasis put on "executive authority" by King Mohamed VI. This became more evident during the tenure of the government of the technocrat Driss Jettou. In practice this has meant a changing role of the state in fostering an enabling environment for the private sector. At the same time, the private sector increased its collaboration with the state to create better conditions for economic growth. Through the example of *Plan Emergence*, I showed how the private sector was supported by newly created state agencies. Because of financial constraints of the state, funding came not only from outside sources but also from the banks controlled by business groups close to the palace. The increased collaboration between the state and the private sector went through a maturation phase. I showed how the textile and clothing association previously defended the interests of the domestically-oriented producers. Contact with the state largely took place via informal channels. The rise of a new group of export producers with different interests challenged this mode of interaction. They captured the association and forged a more formal and

institutionalized relationship with the state. This resulted in concrete strategies, funding and schemes in support of the sector.

However, the focus is not solely on economic growth, but also on a more equitable growth model. I recall the example of the Cities without Slums programme through which the state attempted to improve the housing conditions of the urban poor. This segment of society was less represented politically, partly because of their reluctance to vote, but also because the PJD moved to address concerns of the urban middle class. This left a vacuum open which was filled by King Mohamed VI who through a concerted campaign and the launching of initiatives positioned himself as the king of the poor. Interestingly, the rent-seeking opportunities which the state created for private developers to build social housing served a double purpose. The regime co-opted a new set of entrepreneurs while at the same time socio-economic investments were made on behalf of a fiscally constrained state.

The example of the pharmaceuticals is also illustrative of this point of socio-economic development. The competition in parliament between different political parties for the vote of the urban masses and the emphasis the king put on health care coverage limited the rent-seeking opportunities the sector previously enjoyed in terms of higher price of medicine. Previous state-sector relationships which made these rent-seeking opportunities possible were no more a guarantee that the interests of the sector would be met. This was further aggravated by the fragmentation in this sector, which did not necessarily occur along economic interests alone.

To conclude, my research has shown that conceptualizing state-business relations as embedded within wider societal relations allows one to understand how potentially negative crony capitalism consequences can be mitigated. Close and concentrated state-business

relations did not ensure a continuation of past practices. The fragmented nature of the Moroccan political economy led to a curtailment of these rents, because private sector interests have to compete with various other (political) interests.

Reaching these conclusions was made possible by two elements of my theoretical and methodological approach. Embedding my research in historical institutionalism allowed me to combine a macro-historical analysis with detailed process tracing of various policy areas. As such, my findings contribute to the literature in the field of state-business and to Middle East studies. Regarding the former, I move away from a narrow focus on the two constitutive dimensions of state-business relations, namely the state and the private sector. I analyze these two in the wider societal context. More specifically, my analysis falls at the nexus of politics and economics. It is the combination of these two domains which deserves more attention in Middle East studies.

Combining macro-historical analysis with process tracing inevitably has its weaknesses. I touched upon some policy areas but did not delve deeper into the implications they could have for the study of the Moroccan political economy. For instance, research on the political economy of social service delivery and of food subsidies can shed light on the changing support-base of the monarchy and complement the present research. In addition, my focus has been on the process rather than the outcomes of programmes and policies. Future research could combine quantitative and qualitative methods to unearth the relationship between the processes and socio-economic development outcomes.

I suggest that my research can contribute to the debate regarding the resilience of monarchies. Several explanations have been put forward for the perceived resilience of monarchies to the Arab uprisings. These explanations focus respectively on domestic features

of monarchies, external support and political economy. My research findings suggest that the more satisfying explanation for the relative stability of Arab monarchies can be found in the particular way monarchies have organized their political economy.

Explanations for the durability of monarchical rule in the Middle East can partly be traced back to the claim that monarchies have certain advantages that made them suitable for state-formation and nation-building. Monarchies which display institutional flexibility and inclusiveness are better suited to survive the challenges of both state-formation as well as nation-building.[628]

Others pointed to some of the institutional advantages of monarchies over presidential Arab republics. The monarchs operate on a more distant level and stay above the fray of everyday politics and societal cleavages. This provides them with a unique advantage as an arbiter.[629] In addition, monarchs can position themselves not only above the fray, but at the same time turn themselves into the centre point of patronage around which factions in society compete. Pluralism can thus be used to the advantage of the monarch. The circulation of elites and divide and rule strategies reinforce the position of the monarch.[630]

However, some of the domestic institutional features associated uniquely with monarchies are upon closer scrutiny also applicable to the Arab republics. Some Arab republics had regimes in place that proved more suitable for state-formation than the weakly supported monarchies they had replaced. Personalized rule in republican systems bore some resemblance to monarchical rule in the way power was exercised. Some of the still-existing

[628] Lisa Anderson, "Dynasts and Nationalists: Why monarchies survive," in *Middle East Monarchies: the Challenge of Modernity,* ed. Joseph Kostiner. (London: Lynne Rienner Publishers, 2000), 55 and 66.
[629] Daniel Brumberg, "Sustaining Mechanics of Arab Autocracies," *Foreign Policy*, December 19, 2011, http://mideast.foreignpolicy.com/posts/2011/12/19/sustaining_mechanics_of_arab_autocracies.
[630] Russell Lucas, "Monarchical Authoritarianism: Survival and Political Liberalization in a Middle Eastern Regime Type," *International Journal of Middle East Studies* 36 (February 2004): 115.

monarchies have in the past closely survived attempts to remove them, like the Moroccan and Jordanian monarchies in the early 1970s. The unique monarchical type of rule did not shield them from such attempts. The claim that monarchs position themselves at a distance from politics does not hold if one considers the considerable intervention often made by Hassan II and Mohamed VI or supposedly on behalf of them in politics. The strategies of divide and rule and creating a patronage system around the monarch are not sole prerogatives of monarchies. These strategies have been amply deployed by Arab presidents as well.

The second set of explanations focuses on how monarchical survival essentially depends on external support. This supports comes in two forms. The oil-rich countries extend support to the resource-scarce kingdoms of Morocco and Jordan. This type of budget support has a long tradition, especially in the case of Morocco and Jordan. Similarly, aid packages were extended to the Moroccan and Jordanian monarchies, especially after the downfall of presidents Mubarak and Ben Ali in Egypt and Tunisia in 2010. In addition, the monarchies rely on Western support, either because of the military bases in the Gulf or because of long standing close relations like the one between Morocco and France.[631]

External support is a significant factor for especially the resource-scarce monarchies. These countries resemble the republics in their limited fiscal capacity to promote socio-economic development. In the case of crisis, the continuation of food subsidies, increased salaries and other income measures are needed to maintain social peace. Yet their budgetary constraints prevent them from applying such measures for a prolonged period of time. Access to oil wealth and western aid alleviates some of these pressures. However, external support, whether from the West or from other (wealthy) Arab countries was, not solely available to the (poorer) monarchies. Egypt, for example, benefited from substantial external support prior to

[631] Sean L. Yom, "The Survival of the Arab Monarchs," *Foreign Policy,* November 12, 2012, http://mideast.foreignpolicy.com/posts/2012/11/12/the_survival_of_the_arab_monarchies

the 2010 uprisings, both from the Gulf monarchies as well as from the US. As such, external support in itself is not a sufficient explanation of monarchical survival in the Middle East. In some cases, extending support at the last minute may not prevent regimes from collapsing, like the case of the Shah of Iran in 1979. The focus should therefore be turned more to the domestic level in order to find a more robust explanation for regime survival among monarchies.

This dissertation suggest that the fragmented nature of Morocco, proved paradoxically to be a strength. I contend that Morocco was able to weather the storm because the regime had a stable support-base which was widely dispersed. The fact that the capital structure was concentrated meant that alliances could be forged geared towards interventions in the economy on behalf of the regime. This became evident in the various government programs to create jobs and improve housing conditions, especially after the 2003 Casablanca bombings. One could argue, that Morocco had laid the groundwork after these terrorist attacks in order not to be surprised by the same social discontent which erupted in Tunisia and Egypt.

The response by the monarchy to the protests seems to be in line with the findings presented above. A protest movement under the name 20th of February movement started organizing on the 20th of February 2011. In order to preempt the protest to grow out of hand, King Mohamed VI announced constitutional reform on the 9th of March. The drafting took place through a royally appointed commission of experts. Under the supervision of royal advisors input was collected from various groups and organizations, like political parties, trade unions, business associations, and human rights organizations. However, drafts were not discussed, just inputs collected. The final version was presented on the 17th of June 2011 and approved through a referendum by the population on the 1st of July. This constitution limited

the kings power by handing more power to the prime minister, while at the same time the king maintained important prerogatives, especially when it came to strategic aspects of the state.

Of interest to note here is the reaction by CGEM. It actively participated in the discussions on the new constitution and sent its input to the drafting commission. For CGEM it was important to have a stronger emphasis on the freedom of enterprise. This entailed among others judicial reform and a stronger action plan against anti-competitive behavior. Regarding privatization, a better and more transparent text was needed for future sales of state assets. In more general terms, CGEM emphasized human rights and wanted to see a stronger commitment in the constitution of aligning national law with internationally signed treaties, whether regarding human rights or more specifically regarding business practices. CGEM actively campaigned for a yes vote when the constitution was presented to the public. In my interview with former CGEM president Horani, he expressed a certain proudness for having been able to participate in this important constitutional reform and being elated when it was approved through a referendum. As such CGEM did not break with its earlier stance of close collaboration with the government and the monarchy.

The regime had previously invested in maintaining links with various groups in society, which included the Islamists of the PJD. As such, it could deal with the groups in the streets through repression, and divide and rule. At the same time, it co-opted the PJD into a coalition government. In order to maintain social peace, various socio-economic measures were taken. The regime thus used the classic response deployed previously, namely using yesterday's opposition to counter todays opposition. In other words, whereas the Islamists were a threat in the 1990s, it was the co-option of the weakening socialist opposition which ensured political stability. I argue that in order to deal with the current liberal and democratic protesters, the Islamists were used in order to maintain social peace. Whether this will work in the long run

remains to be seen. John Waterbury famously remarked that "the king has no other long term strategy than to hope that his short term tactics continue to pay off".[632] As shown in this dissertation, the short term tactics seem to have long term implications in terms of surviving where other regimes have failed.

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[632] Waterbury, *Commander*, 155.

List of Interviews

Former President AMIP and CEO of pharmaceutical company

Secretary General AMIP and CEO of pharmaceutical company

Secretary General Ministry of Health

Committee member Medicine, Maroc Innovation Sante (MIS)

Reporter parliamentary ad hoc commission on price of medicine

CGEM vice president Hamoumi

CGEM vice-president Kettani

CGEM president Mohamed Horani

Advisor of prime minister Driss jettou, Hynd Bouhia

Taha Ghazi, Head of Textile and Leather Division, Moroccan Ministry of Industry and Commerce

Hanine Tazi, Director AMITH

Soundous Bouhia, Advisor to the Minister of Industry and Commerce

Serge Chouchana, CEO of clothing firm

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