

# Politics of Trade Protection in an Autocracy: Evidence from an EU Tariff Liberalization in Morocco \*

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## ABSTRACT

Although non-tariff measures (NTMs) have surpassed tariffs as the most prevalent instrument of trade protection globally, our knowledge of what drives these NTMs is extremely limited. This paper sheds light on the political determinants of non-tariff protection using a rich empirical setting in Morocco. Taking advantage of a bilateral EU-Morocco trade agreement that resulted in an across-the-board tariff cut and a subsequent rise in NTMs, we use a difference-in-differences regression framework to show that sectors with close prior political connections to the royal family received disproportionately higher levels of non-tariff protection after the EU Agreement than unconnected sectors. We also demonstrate that, in the wake of the EU-induced tariff cut, connected sectors were mainly compensated through technical barriers to trade that depend on administrative oversight and are vulnerable to political influence.

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## 1 INTRODUCTION

With applied tariff rates falling by 66 percent since 1996, developing countries have witnessed a dramatic reduction in tariff barriers over the last two decades.<sup>1</sup> As tariff levels fell to a historic low, non-tariff measures (NTMs) have emerged as a potent substitute to become the most dominant form of trade protection today. NTMs are a broad set of policies, such as restrictions on hormones in meat products, labeling requirements or pre-shipment inspections, that can have an economic effect on the prices and quantities of internationally traded goods.<sup>2</sup> While the intent and impact of tariffs are clear and tangible, the effects of NTMs are more difficult to analyze. Unlike tariffs, NTMs can be imposed without an obvious protectionist intent and for legitimate reasons such as environmental, health and safety considerations. Their introduction is also linked with greater harmonization of trade standards triggered by international trade agreements.

Recent evidence has, however, begun to establish that NTMs can cause substantial trade frictions. A recent study demonstrated that NTMs added an average of 87% to the trade restrictiveness imposed by tariffs, and for almost 50% of countries the restrictive impact of NTMs on trade is higher than that of tariffs (Kee, Nicita, and Olarreaga, 2009). A more systematic analysis of the impact of NTMs has so far been hindered by the absence of credible and comparable information on laws and regulations that define these non-tariff measures. Using newly compiled and fine-grained data on NTMs, a recent report has tried to uncover the “unseen impact of non-tariff measures” and showed that they impose significant trade costs in developing countries (World Bank and UNCTAD, 2018).

How can NTMs that are sometimes introduced for supposedly non-discriminatory objectives end up causing trade frictions and undermine market access? One reason is that “the effects of NTMs are largely dependent not only on NTMs per se, but also on implementation procedures and administrative mechanisms” (UNCTAD, 2012b). NTMs can prove complex and burdensome for firms to conform to, and for governments to implement. Inconsistent and selective enforcement can increase the costs of compliance for firms that lack both the capacity and resources to meet these trade requirements.<sup>3</sup> This can cause a disjunction between the *de jure* intent and *de facto* practice along the lines

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<sup>1</sup>Applied tariff rate (weighted mean for all products) for low and middle-income countries from the World Bank.

<sup>2</sup>See (UNCTAD, 2012a) for a full classification of Non-Tariff Measures.

<sup>3</sup>Firms in developing countries, especially small and medium enterprises (SMEs), are shown to find these trade regulations especially burdensome (UNCTAD, 2012b).

demonstrated by [Hallward-Driemeier and Pritchett \(2015\)](#) in their work on World Bank’s Doing Business indicators. The gap between intent and practice can be especially large in countries that suffer from weak governance capacity and a discretionary enforcement environment. In such institutional contexts, even the most innocuous rules can become “deals” that privilege politically connected businesses.

This raises an important question for the political economy of trade policy. Can non-tariff protection in developing countries be considered as endogenous and dependent on institutional and political determinants similar to those governing tariff protection? Specifically, can the growing usage of NTMs be explained in part by the interests of politically connected actors looking for substitutes in the wake of externally-induced tariff liberalization? To evaluate this claim, we use a major shock to Morocco’s trade regime that resulted from the country’s Association Agreement with the European Union (EU) – Morocco’s largest trading partner. The agreement, which came into force in 2000, was driven by geopolitical objectives, with the main impetus coming from the EU attempting to link “security and stability in the Mediterranean” with trade cooperation as part of its Barcelona process. The Agreement triggered an across-the-board tariff cut and was followed by a wave of non-tariff measures.

To explore the politics of this policy instrument substitution, we set up a difference-in-differences (DID) analysis and empirically examine whether sectors with greater prior exposure to politically connected businesses were more likely to receive higher NTM protection after the EU Agreement. To conduct this analysis, we constructed a novel dataset providing fine-grained information on the presence of politically connected businesses in all manufacturing activities classified along the four-digit ISIC sectors. In the most extensive exercise carried out for Morocco to date, we mapped political connections of over 1,500 firms using an array of hitherto untapped sources, and following closely the commonly used definition of politically connected firms proposed by [Faccio \(2006\)](#). We then combined this dataset on politically connected firms with detailed product-level data on the incidence and type of non-tariff measures recently made available by the World Bank and UNCTAD (MAST).

Our results provide strong evidence that sectors in which politically connected businesses were active prior to the Agreement received substantially higher levels of non-tariff protection after the EU agreement. The effect of cronyism on trade policy is quantitatively large. On average, the politically connected sectors ended up benefiting from an NTM coverage ratio that was between 9 and 11%pts higher compared to unconnected sectors.

The size of this effect becomes clear when comparing it to an average NTM coverage ratio of 24% in unconnected sectors in 2009, at the end of the post-period. Recognizing that not all types of NTMs impose trade restrictions of a comparable scale and that the preference of cronies could vary across NTM types, we disaggregate our empirical analysis by different NTM types. We show that our results are principally driven by technical barriers to trade (TBTs) that require administrative oversight, are susceptible to selective enforcement, and can favor politically connected actors. Given that the royal family has a dominant stake in the economy, we disaggregate the effect of political connections between royally-owned firms and non-royal cronies. Our results suggest that the effect of cronyism on trade policy substitution is mainly driven by firms owned by advisors, confidants, and politicians rather than royally-owned firms.

Our empirical strategy addresses the concerns arising from a DID analysis in this setting. Here, we highlight the three most important ones. Firstly, a possible endogeneity concern is that cronies might have self-selected into sectors that were predisposed to receiving more NTMs in the wake of EU Agreement. To address this, we take advantage of the temporal dimension of our database on cronies and treat sectors as politically connected only if they had crony presence seven years before the EU Agreement came into force (and several years before it was negotiated). In an institutional context defined by policy uncertainty and centralized decision-making, it is highly unlikely that political cronies could have anticipated the trade agreement this early. Furthermore, we show that the trajectory of NTMs for politically connected and unconnected sectors was fairly similar prior to the EU Agreement. The difference only emerges after the Agreement. Since sectors with initially higher tariff levels were more likely to receive NTM protection after the EU agreement, we ensure that all our specifications control for average MFN tariffs. Lastly, controlling for sector and year fixed effects allows us to account for any unobserved time-invariant sector-specific characteristics and any temporal shocks during the period of investigation that commonly affect all sectors.

A second concern is that part of the correlation we are documenting between the presence of political cronies and NTMs may result from broader regulatory harmonization with the EU. To the extent that such harmonization operates at a broad industrial level (ISIC-2) we account for it by including group-specific linear time trends. A third concern relates to the relevance of other variables previously found to be determinants of trade policy, and that may be correlated with both the sectoral exposure to politically connected actors and NTM incidence. To address this, we controlled for several determinants that were

flagged by previous literature (Lee and Swagel, 1997), including industry employment, value added, output, and number of establishments. The effect of political connectedness still turns out to be larger than any of these traditional drivers of endogenous protection.

This paper contributes to the nascent literature on the politics of trade protection in authoritarian regimes (Galiani and Torrens (2014); Zissimos (2017)).<sup>4</sup> All authoritarian rulers face a perennial challenge of survival in the face of threats, including ones posed by elites. Unable to rely solely on repression, rulers seek to ensure the continued support of elites by granting privileges and sharing rents (Bueno de Mesquita, Smith, Svierson, and Morrow, 2003; Gandhi and Przeworski, 2006; Svobik, 2009). From the autocrat’s perspective, such rent sharing can be particularly important for securing commitments from a subset of elites, typically described as the “selectorate”, who hold the potential to overthrow the ruler and install a new one (Bueno de Mesquita, Smith, Svierson, and Morrow, 2003). The literature suggests formal institutions (e.g., parties and legislatures), informal institutions (e.g., clientelism and patronage), and economic policy (e.g. subsidies and tax policies) as possible mechanisms for co-opting elite actors (Wintrobe, 1998; Gandhi and Przeworski, 2006; Gerschewski, 2013). Our contribution is to demonstrate the relevance of trade policy for such authoritarian power sharing. In the Moroccan context, the royal family lies at the centre of the concentric circle of power while other royals, government ministers, and advisors form part of selectorate whose support is deemed crucial for regime survival. Extending greater NTM protection to politically connected sectors after the EU-induced tariff cuts can thus be viewed as a means of ensuring continued protection in the context of overall declining barriers to trade.

We also offer complementary evidence for Zissimos (2017) who theorizes the conditions under which dictatorial regimes can manipulate trade policy in the wake of permanent global price shocks. Zissimos shows how the ruling elite can forestall democratization by using trade policy to make transfers to the rest of society, thereby affording them a higher level of income than after a costly transition to democracy. While this approach is grounded in the problem of authoritarian control where the regime faces a threat from outside the elite, the same logic can be extended to the use of trade policy to reward elites. While Zissimos (2017) discusses the theoretical applicability of this framework to contexts in which trade policy can facilitate authoritarian power sharing, our paper offers the first systematic evidence on this account.

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<sup>4</sup>Extant literature has predominantly looked at trade policy differences between democracies and autocracies (Mansfield and Milner (2012); Kon (2006); Barari and Kim (2020)).

Our research also complements the more well-established literature on the politics of trade protection that has overwhelmingly focused on democratic contexts where trade protection is typically exchanged for lobbying contributions by special interest groups (Grossman and Helpman, 1994). The theoretical predictions of the Grossman-Helpman type models have been empirically affirmed using industry-level data from the United States (Goldberg and Maggi (1999); Gawande and Bandyopadhyay (2000)), Turkey (Mitra, Thomakos, Ulubaşö, and Ulubasogl, 2002) and India (Bown and Tovar, 2011). The study on India is closest in spirit to our work, since it demonstrates how exceptional non-tariff measures, such as anti-dumping and safeguarding measures, were used to substitute for tariff reductions in politically organized sectors in the wake of 1990-91 IMF agreement.<sup>5</sup> Our analysis relates to an authoritarian context where business lobbies are generally weak and ineffective, and the regime has greater bargaining power vis-à-vis domestic economic actors.<sup>6</sup> Compared to extant research, we develop a more precise and direct proxy of politically connected sectors that is based on granular information on the presence, number, and type of political connections. By contrast, previous studies have used relatively indirect proxies for sectoral exposure to special interest groups.<sup>7</sup>

In addition, this study makes a distinct contribution to the nascent literature on politically connected firms in the Middle East and North Africa (Rijkers, Freund, and Nucifora, 2017), Egypt (Diwan, Keefer, and Schiffbauer, 2020), and Lebanon (Diwan and Haidar, 2020). We complement this literature by probing the role of politically connected firms in a major episode of trade policy substitution. In this regard, we supplement recent studies in establishing greater incidence of NTM protection in politically connected sectors in Mubarak-era Egypt (Diwan, Keefer, and Schiffbauer (2020); Eibl and Malik (2016)). Finally, our work carries important implications for a separate strand of literature on the political economy of international trade agreements. Studies in this tradition have argued that democratic countries are more likely to join global trade agreements than authoritarian regimes (Maggi and Rodríguez-Clare, 1998), and that these agreements serve as a commitment device for rulers who can use these agreements to “foreclose political pressures at home” and neutralize politically influential business lobbies (Maggi and Rodríguez-Clare (2007), Mitra, Thomakos, Ulubaşö, and Ulubasogl (2002), Baccini and

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<sup>5</sup>With the exception of Bown and Tovar (2011) and Limão and Tovar (2011), the overwhelming focus of past research is on tariffs.

<sup>6</sup>Welfare concerns that conventionally motivate trade models are likely to receive less weight in dictatorial regimes.

<sup>7</sup>Typically, interest group activity is measured using the number of groups listed in important reference works, such as the World Guide to Trade Associations (Limão and Tovar, 2011).

Urpelainen (2012), Limão and Tovar (2011), Rodrik (2018)). The question then arises why some authoritarian regimes commit to tying their hands by signing free trade agreements (FTAs) at the expense of losing control over tariffs that can be used to reward politically influential sectors. Our evidence offers a potential explanation for this puzzle that revolves around the ability of these regimes to neutralize the effect of tariff reductions through compensatory non-tariff protection. This would make FTA-induced trade liberalization less threatening and more politically palatable to authoritarian regimes.

The remainder of this paper is organized as follows. Section 2 offers a brief overview of the connection between business and politics in Morocco, and describes the main features of the Morocco-EU trade Agreement. Section 3 sets out the underlying data and empirical strategy. In section 4, we present our main results and associated robustness checks. Section 5 concludes the paper.

## 2 BACKGROUND

### 2.1 BUSINESS AND POLITICS IN MOROCCO

Since its independence in 1955, the Moroccan political economy has been dominated by the king and the royal family. Politically, all three post-independence monarchs (Mohammed V, Hassan II, Mohammed VI) have preserved the royal court (the *Makhzen*)<sup>8</sup> as the pinnacle of power in the political system, with key executive prerogatives exercised by the king, while gradually opening the political sphere to increased electoral competition.<sup>9</sup> The initial post-independence ruling coalition was small, based on rural elites, but gradually came to include important elite groups within society, including urban business elites. Without abundant natural resources as a means of co-optation, the monarchy has had to balance satisfying the needs of its citizenry against preserving privileges of its elites.

State-business relations have been at the center of this dynamic. In this context, inter-marriage has served as a tool to ensure the loyalty of important elite families (Willis,

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<sup>8</sup>In Moroccan Arabic, *makhzen* means “storehouse” and historically refers to the palace quarters where goods offered to or expropriated by the sultan’s representative were stored. In Moroccan political jargon, the *makhzen* refers simply to the palace as the ultimate seat of power and is used extensively as a concept in the political science literature (cf. Saadi (2019), Waterbury (1970)).

<sup>9</sup>The Moroccan king controls key judiciary appointments, is the country’s religious supreme leader, and has de facto veto power over ministerial appointments. His advisers serve as shadow cabinet with considerable influence on key ministries. The king also has the ultimate control over the regime’s security apparatus.

2012).<sup>10</sup> Networks into the *makhzen* are thus more important than lobbying through business associations, which tend to be weakly organized. Economically, the king has successfully tied the business interests of the urban elite to the survival of the regime through patronage and rent generation. The “Moroccanization” policy of the 1970s allowed the narrow urban elite to take control of formerly French companies (Cammatt, 2004). A second, similarly large transfer of company ownership took place in the 1990s as a result of the privatization of many state-owned enterprises pushed for by international institutions (Catusse, 2009). As a result, the Moroccan economy is dominated by large and diversified business groups, often associated with family clans.<sup>11</sup> Since the 1980s, the king himself has become one of the largest businessmen in the country, mainly by acquiring two previously state-owned holding companies that have since merged.<sup>12</sup> Beyond the royal family, there are several other well-known business families with large holding companies. Saadi (2013) reports a list of the thirteen largest holding companies together with estimates of their recent turnover and number of firms owned. The estimated total number of firms owned by these holding companies is over 370. An overview of these holding companies is shown in Online Appendix Table 1.

Given the pivotal position of the royal court, Morocco can be characterized as a centralized network economy in which political connections are built in concentric circles of influence (see Figure 1). Immediate members of the *royal family* represent the center of this network. The circle with the most direct political influence beyond the royal family are the members of the *royal court*. This includes board members of royal charitable foundations<sup>13</sup>, advisors in the royal shadow cabinet that mirror each ministerial position, CEOs of royal holding companies and close friends of the king. A much larger group of individuals with substantial proximity to the royal court are current and former cabinet ministers (*politicians*). Especially since the 1970s cabinet positions have often been given to members of the urban elite families to co-opt them and maintain their support. Holding a cabinet position thus goes beyond the direct policy influence as an indicator of political

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<sup>10</sup>For instance, King Hassan’s sister was married to Ahmed Osman, who was prime minister 1972-1981. His daughter was married to the son of Abdellatif Filiali, who was prime minister 1993-97.

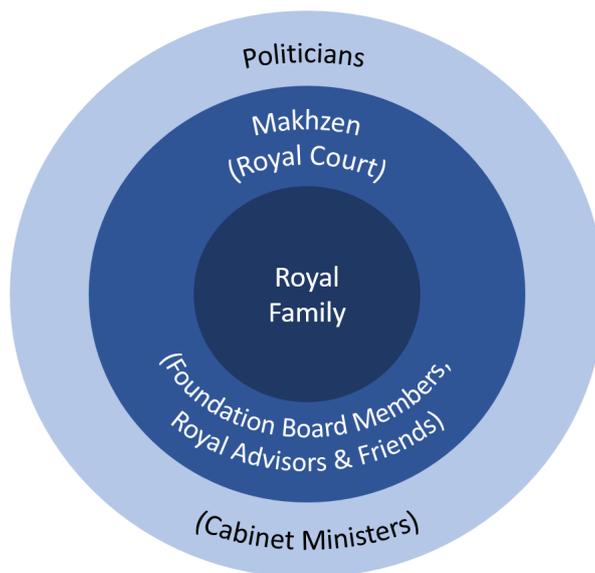
<sup>11</sup>Diversified business groups or holding companies dominate the private sector in many countries. As Fisman (2001) points out, these groups “are ubiquitous yet poorly understood organizational forms [...] Such groups are comprised of a diverse set of businesses, often initiated by a single family [...], and bound together by equity cross-ownership and common board membership” (p.1096). The prevalence of such groups has been observed in many regions, including the Middle East, Southeast Asia, India and Latin America.

<sup>12</sup>The Omnium Nord-Africain (ONA) and the Société Nationale d’Investissement (SNI).

<sup>13</sup>The foundations considered here are Foundation Mohammed VI for Environmental Protection, Foundation Hassan II for Social Works and Foundation Mohammed V for Solidarity.

connections: it suggests that the cabinet member is part of an important family or faction to be co-opted. In the absence of substantial natural resource rents, the distribution of regulatory rents assumes greater salience as a mechanism for ensuring continued elite allegiance to the monarchy.

FIGURE 1: Categories of politically connected individuals in order of their presumed proximity to the king.



## 2.2 THE EU-MOROCCO FREE TRADE AGREEMENT

The Association Agreement between Morocco and the European Union that took effect in 2000 presents an excellent setting for analyzing the relationship between political connections and trade protection. In the early 1990s, the European Union worked on redefining and deepening their relationship with its North African and Middle Eastern neighbors. The result of this process was the Barcelona Declaration of 1995, declaring a new “Euro-Mediterranean Partnership.” This partnership was to extend across a political, an economic and a cultural “basket,” though undoubtedly the economic one has been the most important. As a first step, the EU began to negotiate bilateral Association Agreements with countries that were part of the initiative. The Morocco-EU agreement was signed in 1996, but came into force only in March 2000. The Agreement involved a 12-year process of tariff liberalization with a view towards the gradual establishment of a Free Trade Area eliminating all industrial duties.<sup>14</sup>

<sup>14</sup>Imports of all Moroccan industrial products into the EU are duty free today, and imports of EU products into Morocco are duty free except for 142 lines resulting in an average duty of 0.2%.

With the exception of a few product lines, industrial goods were divided into two baskets for liberalization. Duties on goods in the first basket were to be reduced by 25% of the 1995 rate each year to reach zero by 2003. Duties on products in the second basket were to be reduced by 10% of the 1995 rate annually from 2003 onwards to reach zero in 2012.<sup>15</sup> Prior to the Agreement, non-tariff barriers, such as quotas and import licenses, were replaced with tariffs in process known as “tariffication” that was completed in 1997 and made tariffs as the principal instrument of trade policy. The EU-induced trade liberalization was mainly focused on tariff reduction and resulted in a downward shock to Moroccan tariff regime. The average tariff rate applied to manufacturing imports from EU fell by over 70%. The mean EU tariff rate fell from 31.45 in 2000 to 8.22 in 2009. This was accompanied with falling tariff dispersion. The standard deviation of tariffs across manufacturing sub-sectors fell from 18.3 in 2000 to 13.6 in 2009, pointing to a greater harmonization of tariffs.

Two aspects of the EU Agreement are particularly relevant for this empirical inquiry. Firstly, the EU-induced tariff cuts represented a discrete and universal shock that affected all sectors in the manufacturing space. These tariff cuts were followed by a dramatic rise in NTMs.<sup>16</sup> The share of manufacturing products covered by NTMs doubled during the period 1999-2009. All sectors that witnessed a tariff cut experienced a subsequent rise in NTMs. Even when new universally applied NTMs are excluded from the analysis, about 55% of the sectors facing a tariff cut witnessed a subsequent rise in NTMs. Importantly, there was considerable variation in the introduction of new NTMs across sectors, which will be crucial for our identification strategy. Secondly, the EU Agreement was an important economic milestone for Morocco as the EU is Morocco’s largest trading partner. In 2015, 61% of Morocco’s exports went to the EU, and 55.7% of total trade was with the EU.<sup>17</sup>

We argue that the trade agreement with the EU can reasonably be considered as an event exogenous to domestic Moroccan politics. During this period, Morocco’s FTAs had an “explicitly political and strategic component, one born of the new context of the

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<sup>15</sup>Agricultural products were exempted from this liberalization, and tariffs in the agro industry were to be split into an agricultural component (that could be maintained) and an industrial component (that had to be liberalized).

<sup>16</sup>Non-tariff measures were not part of the agreement. New EU protocols on NTMs, in particular sanitary and phytosanitary measures for agricultural products, were only implemented in 2012 ([World Trade Organization, 2013](#))

<sup>17</sup>As reported by the European Commission, see <http://ec.europa.eu/trade/policy/countries-and-regions/countries/morocco/index.en.htm>

post-September 11 era and the War on Terror” (White (2005), p.599). At a time when Western powers were seeking to promote broader regional stability in the Maghreb, the FTAs were increasingly viewed as an instrument in the fight against terrorism.<sup>18</sup> This is in line with prior understanding. Bilateral and multilateral trade agreements for North African countries have largely been pushed from the outside (Cammatt, 2007). Decisions on trade policy tend to be made in a top-down manner in North Africa (Cammatt, Diwan, Richards, and Richards, 2015). A recent assessment of EU policies in the Mediterranean region including Morocco suggest the practical absence of any input or engagement from local stakeholders in these policy interventions (Aboushady, N., Zaki, C., Moisseron, J. and Guesmi, K., 2019).

For all these reasons it is unlikely that politically connected actors could have predicted the onset of this substantial trade policy shift several years earlier, especially in a business climate marked by high policy uncertainty (Willis, 2012). There is also little evidence to suggest that tariff reductions were systematically correlated with industry characteristics.<sup>19</sup> Admittedly, tariffs were not reduced uniformly across sectors. To account for this differential effect of the trade shock, we control for sector-specific tariff levels throughout our empirical analysis.

### 3 DATA AND DESCRIPTIVES

Our empirical analysis rests on three data inputs: information on the political connections of firms, annual data on tariffs and non-tariff measures, and data on important industrial characteristics that may drive trade protection. Data from all sources were then aggregated into a single panel dataset at the ISIC-4 sector-year level.

#### 3.1 POLITICALLY CONNECTED FIRMS

To construct a dataset of politically connected firms we followed a three-step procedure. Firstly, we collected and categorized names of politically connected individuals. Secondly, we obtained firm-level data for over 100,000 mostly privately held firms in Morocco. Thirdly, we matched firms and individuals based on shareholding to obtain a list of

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<sup>18</sup>In this strategic assessment, economic development was viewed as an antidote to extremism. This was best summed up in the words of former US trade negotiator, Robert Zoellick, who in the context of a US-Morocco trade agreement argued that “trade leads to tolerance” (Zoellick, 2004).

<sup>19</sup>Regressing the change in EU tariff rate between 2000 and 2009 on pre-Agreement industry characteristics shows that, apart from the share of imports, none of the other main industry characteristics are significantly correlated with the tariff change. See Online Appendix, Table 2).

over 1,500 politically connected firms (PCFs), including sectoral activity and basic firm data.

To identify PCFs we follow [Faccio \(2006\)](#) and define a firm as politically connected if the owner, senior manager or at least one of its shareholders has a clearly-identifiable political link. We considered the most important channels of political influence in Morocco. These include members of the royal family, the royal court, former ministers and their family members. We then gathered lists of names for each of these channels from multiple sources, including official records, press reports and academic publications. Data on cabinet members was obtained from the CIA Chiefs of States Database, the 2012 Polcon Database, and several editions of the Political Handbook of the World. For board members of royal foundations, we obtained lists from their official websites.<sup>20</sup> Additional information on advisors, friends and military officers was obtained from academic publications and press reports, and these names were validated in conversations with local experts.<sup>21</sup> Overall, over 400 individuals were identified as politically connected. Individuals on this list are not necessarily engaged in business and those for which no connections to firms could be established were later discarded. As a result, 192 connected individuals with business ownership remained in the sample.

Information on owners and shareholders of firms was obtained from the Orbis database, one of the largest repositories of data on private firms, especially non-listed companies ([Bureau van Dijk, 2016](#)).<sup>22</sup> We obtained a sample of over 100,000 mostly privately held firms in Morocco for which shareholder information and other basic data are available.<sup>23</sup>

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<sup>20</sup>Data on the royal family was obtained from the official website of the Kingdom of Morocco ([www.maroc.ma/en](http://www.maroc.ma/en)) and Royal Ark (<http://www.royalark.net>). The authors also conducted expert interviews with the economist Mohamed Saadi, the sociologist Mohamed Oubenal, and Prince Moulay Hicham of Morocco.

<sup>21</sup>Noted academic publications in this regard include: ([Saadi, 2013](#)), ([Saadi, 2019](#)), ([Willis, 2012](#)), ([Cammett, 2004](#)), ([Cammett, 2007](#)), ([Catusse, 2009](#)) and ([Oubenal, 2019](#)). Press reports were taken from Reuters, L'Express, La Vie Eco, Jeune Afrique, Les Echos, Morocco Today and Huffington Post Maghreb. Expert interviews were conducted with the economist Mohamed Saadi, the sociologist Mohamed Oubenal and Prince Moulay Hicham of Morocco.

<sup>22</sup>The Orbis database is maintained by Bureau van Dijk, a private research company, which compiles information from multiple sources on private firms around the world, with a focus on non-listed companies. Over 200 million private companies worldwide are listed in Orbis. The data was downloaded from Orbis in November 2016. We imposed minimum data requirements for a firm to be included: that there be at least one listed shareholder, and at least some revenue data.

<sup>23</sup>[Faccio \(2006\)](#) considers only large shareholders (controlling at least 10 percent of voting shares) because she considers listed firms with potentially many shareholders. Almost all firms in Morocco are privately held with very few shareholders. This mitigates the fact that shareholders' voting shares are generally not available in Orbis for Moroccan firms. It can thus be safely assumed that a Moroccan firm's shareholder would pass Faccio's threshold for being a "large" shareholder.

We then assembled a list of over 1,500 PCFs by matching the list of connected individuals with shareholder and officer information from the Orbis database. The coverage of Morocco in the database is good with regards to the number of firms included and available ownership data. The availability of financial data is much more limited. For this reason, we do not systematically use market share indicators in this study. To get around matching problems resulting from frequent misspellings and varying transliterations of Arabic names, we used a fuzzy matching algorithm to compare the names collected against the Orbis database.<sup>24</sup> The algorithm returns names that are sufficiently similar to the search string (according to a pre-specified threshold). After running the algorithm on all names of connected individuals, we then validated the returned list manually and, to err on the side of caution, excluded matches that were ambiguous.

Firms were categorized according to their shareholders' type of political connection. Firms with several connected shareholders were classified according to the shareholder with the closest connection to the royal court. Since the Orbis database provides the year of incorporation of firms, our measure of PCFs is time-varying.<sup>25</sup> Firms are considered to have been connected since their year of incorporation, and to have been active since incorporation in the sector currently listed as company's primary activity on Orbis. Aggregating this data at the sector-year level, we defined several variables to measure the presence and importance of PCFs. *Crony presence* is a dummy variable that takes the value 1 if at least one PCF in the dataset was active in the sector in a given year, and the variable *crony number* counts the number of crony firms active in a sector in a given year. Differentiating by type of political influence, we constructed separate measures of crony type. To capture *royal crony presence* we define a dummy variable that takes the value 1 if at least one firm owned by the royal family was active in a given sector-year. Using the same approach, we define *Makhzen* as sectors exposed to foundation board members and royal advisors, and *Politicians* as sectors where any of the cabinet members (and their extended family) have operated since 1979. Table A3 in the Online Appendix provides an overview of major holding companies and business conglomerates in our dataset.

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<sup>24</sup>Fuzzy matching algorithms perform approximate string matching. In this particular context, the algorithm searched the list of all shareholders, and returned names that matched with the name searched for *approximately* rather than *exactly*. The particular algorithm we used is written in the R language and embedded in the Alteryx software environment. The algorithm was configured for name matching, so that it deals more efficiently with the presence or absence of titles, and uses phonetic similarity for matching.

<sup>25</sup>Of the 102,682 Moroccan firms with unique identifiers in the database 740 firms did not have information on year of incorporation and were dropped. This constitutes only 0.7 percent of the total sample.

Before proceeding further, two notes of caution are in order. Firstly, for the list of PCFs we only rely on publicly available and verifiable information. We might have missed some connections that remain unreported or unknown. Secondly, firms that have been inactive for several years are generally dropped from the Orbis database. Consequently, we do not observe crony firms that were active in the past but have gone out of business. Both of these are minor concerns in our context. Firm entry and exit rates are among the lowest in the Middle East, including Morocco (Schiffbauer, Sy, Hussain, and Sahnoun, 2014). Turnover rates are likely to be even lower than the average for larger firms owned by politically connected businessmen. On the whole, our results will provide an underestimate of the true impact of cronyism in Morocco.

### 3.2 NON-TARIFF MEASURES

Data on non-tariff measures (NTMs) was extracted from the WITS database, recently compiled through a multi-donor initiative including the World Bank, WTO and UNCTAD (World Bank, 2016).<sup>26</sup> Containing systematic information on the incidence and types of NTMs, a major advantage of this database is its temporal dimension. It provides concrete information on the year when an NTM is introduced, allowing us to build a panel dataset.<sup>27</sup> The database also distinguishes between different NTM types, classifying them into 16 different chapters. Key NTM sub-types include Technical Barriers to Trade (TBT), Sanitary and Phytosanitary Measures (SPS), Pre-shipment Inspection (PSI), and Price Control Measures (PCMs). The raw dataset contains fine-grained information on NTMs for more than 5,000 products in the 6-digit HS classification, yielding 45,988 observations. We removed seven measures that are reported as universally applicable to all products and do not provide any sectoral variation for our empirical analysis (see Table A4 in the Online Appendix, for excluded NTMs). The data was then aggregated at the 4-digit ISIC sector level. Note that these NTMs are applied globally to all of Morocco's trading partners.

While the WITS provides the most comprehensive data collection effort to date, one potential concern for our analysis relates to the possible withdrawal of NTMs that might have been introduced during the period of this study and removed prior to such infor-

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<sup>26</sup> Available at <http://wits.worldbank.org/>

<sup>27</sup> The database does not distinguish between the introduction of a new NTM and a major amendment of an NTM, both of which require a legal decree. For further details on the compilation of this time-varying data on NTMs, see: <http://www.worldbank.org/en/news/video/2018/06/28/transparency-matters-the-unseen-impact-of-non-tariff-measures>

mation being collected. Fortunately, this is not a serious concern for us, since almost all NTMs have been effective continuously since their year of introduction. Only two NTMs were withdrawn during the period 1990-2013, and we remove these to alleviate any concern.<sup>28</sup> We generate several measures to capture the breadth and intensity of NTM protection. *NTM\_share* is the simple unweighted coverage ratio, defined as the share of products covered by at least one NTM in a given sector and year.<sup>29</sup> The intensity of NTM protection is captured by *NTM\_avg2*, the average number of NTMs applied per covered product in the sector. To combine both breadth and intensity of coverage, we constructed *NTM2\_share*, the share of products in the sector subject to at least two NTMs. While *NTM2\_share* is our preferred measure, we report results for all three variables to demonstrate robustness.

### 3.3 TARIFFS, TRADE AND INDUSTRY DATA

To control for sector-level determinants of trade protection flagged by previous research, we collected data on tariffs, trade, and industry specifics at the ISIC-4. Tariff data (both the applied most-favored-nation (MFN) rate and the preferential tariff rate for European imports) were compiled at the 6-digit product level from the WTO's Integrated Database.<sup>30</sup> Tariff rates applied to imports from the EU were equivalent to MFN tariffs until 1999 and fell below the MFN level after the trade agreement came into force in 2000. Data is available from 2004 onwards. For the years 2000-2003 we imputed data based on the 1999 and 2004 tariff rates and the legal texts of the trade agreement. We then aggregated the tariff data at ISIC-4 level. Data on imports and exports were obtained from the UNIDO Industrial Supply and Demand database<sup>31</sup> and supplemented with data from UN Comtrade where necessary. Four-digit sector-level industry data (number of firms, employment, wages, output, value added, and gross fixed capital formation) was taken from the UNIDO Industrial Statistics database. Unfortunately, this data is only available from the year 2000 onwards.

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<sup>28</sup>Information on NTM withdrawal is available from UNCTAD TRAINS database. The two withdrawn NTMs were both Contingent Trade Protection Measures (CTPM) applied on a bilateral basis.

<sup>29</sup>Following Lee and Swagel (1997), we used a simple average rather than weighting NTM incidences by import or production shares. As is well-known, all weighting procedures have their drawbacks. In the Moroccan case, we would expect import-weighting to substantially underestimate the true coverage effect due to very high (and varied) levels of tariff protection at the beginning of the period that reduce imports.

<sup>30</sup>Accessible at <http://tariffdata.wto.org/>

<sup>31</sup>INDSTAT 2, ISIC Rev 3. Available at <https://stat.unido.org/>

Data on political connections, NTMs, tariffs and industrial characteristics was then merged at the ISIC-4 sector-year level.<sup>32</sup> The resulting panel consists of 121 manufacturing sub-sectors. Putting the different data elements together, Figure A1 in the Online Appendix provides a schematic overview of the set-up and data sources used for our analysis.

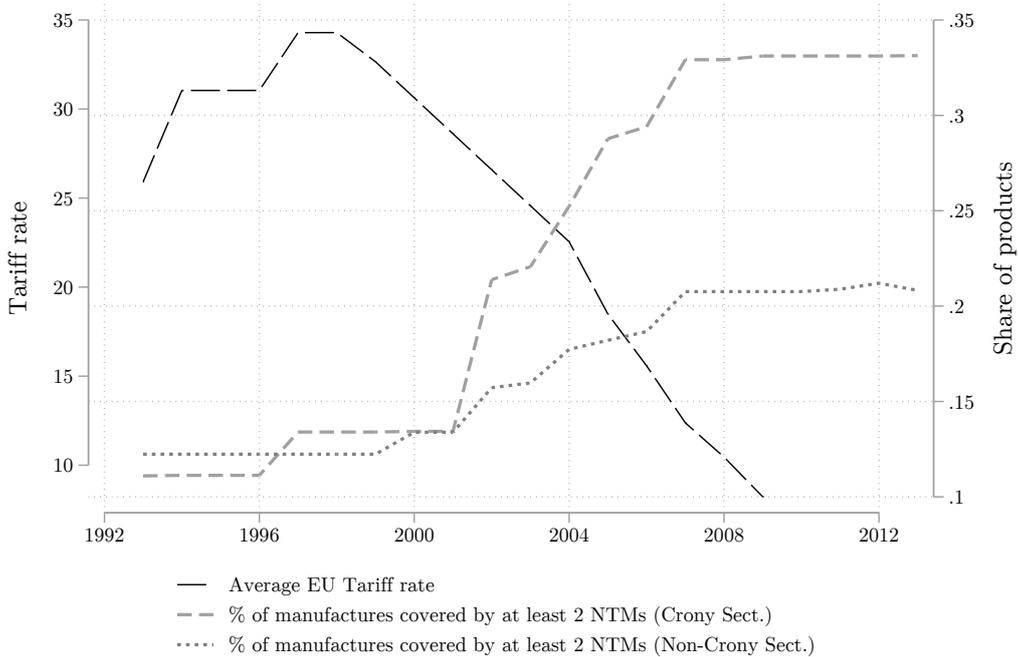
### 3.4 DESCRIPTIVES

Table A1 in the Online Appendix provides a snapshot of the presence of PCFs across different manufacturing sub-sectors defined at the ISIC-2 level. There is considerable variation in sectoral exposure to crony activity. For example, in basic metals, chemicals, paper, and leather production over two thirds of all sub-sectors have at least one PCF. Other sectors, such as tobacco products, optical instruments, or apparel exhibit no crony activity. Summary statistics for all variables in the dataset are shown in Table 1. Firms in connected sectors are typically larger with higher output and market shares. Tariff levels are also slightly higher, on average, for crony sectors. Generally, sectors that initially enjoyed higher tariff protection experienced substantial tariff reductions in the wake of the EU agreement. Tariff cuts were strongly correlated with pre-liberalization tariff levels (correlation coefficient is 0.67). Although, when averaged over the estimation period, the NTM coverage ratio is fairly similar across crony and non-crony sectors, exploratory evidence in Figure 2 shows that the increase in NTMs was highly uneven between connected and unconnected sectors, with the former disproportionately benefiting from higher levels of NTM protection after the EU Agreement.

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<sup>32</sup>Both firm sectors and product-level data had to be reclassified into a unique and consistent nomenclature in order to merge data from different sources. To ensure compatibility of classification schemes, we used Revision 3 of ISIC's sector classification and the HS1988/1992 classification of 6-digit product codes where required.

FIGURE 2: Evolution of the NTM coverage, by connected and unconnected sectors



## 4 EMPIRICAL ANALYSIS

### 4.1 DID SET-UP

To empirically examine the impact of political connections on trade protection we utilize the timing of Morocco’s FTA with the EU, and estimate the following DID specification using our annual panel dataset covering all manufacturing sectors from 1993 to 2009:

$$y_{it} = \beta \text{treated}_i I_t^{\text{post}} + \mu I_t^{\text{post}} + \mathbf{X}'_{i,t} \phi + \gamma_i + \rho_t + \theta_i \lambda_{i,t} + \epsilon_{i,t} \quad (1)$$

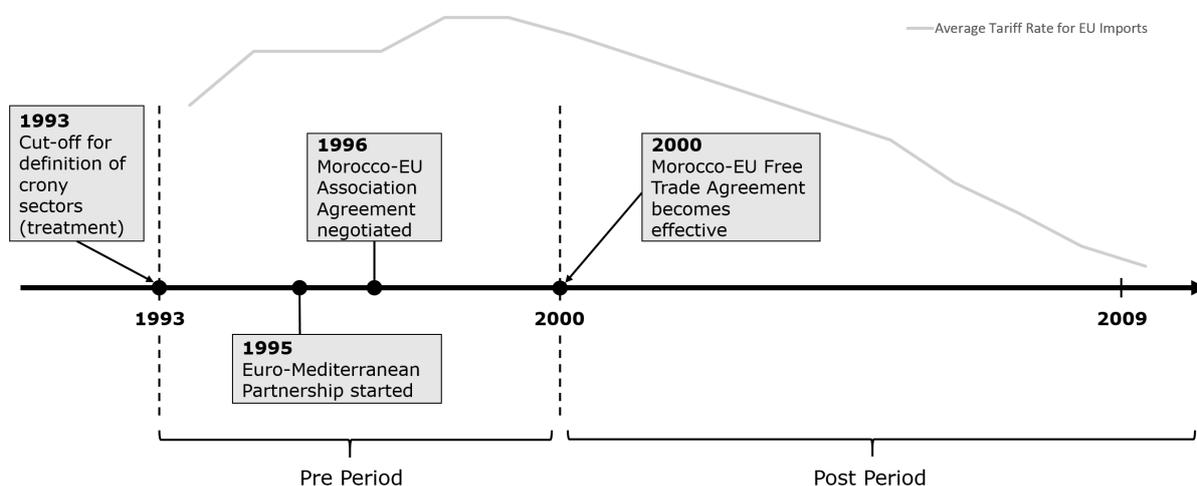
where  $y_{i,t}$  is the measure of NTM coverage for sector  $i$  and year  $t$ ;  $I_t^{\text{post}}$  is an indicator variable equal to one for the post-FTA period;  $\text{treated}_i$  is a dummy variable that equals one for politically connected sectors;  $\mathbf{X}_{i,t}$  is a vector of time-varying sector-level characteristics; and  $(\gamma_i)$  and  $(\rho_t)$  denote the sector and year fixed effects, respectively. The former should control for unobserved sector-specific characteristics that are relatively time-invariant.<sup>33</sup> The year fixed effects control for annual shocks that are common across sectors. We also include sector-specific time trends  $(\lambda_{i,t})$  at the ISIC two-digit sector-

<sup>33</sup>These would include, among others, import-demand and export-supply elasticities.

level. Finally, to account for potential within-sector correlation of outcomes, we cluster standard errors at the sector-level. Our main coefficient of interest is  $\beta$  that estimates the effect of political connections on the post-FTA evolution of NTM coverage.

As is customary in DID analysis, the key assumption that must be satisfied by treatment and control groups is that they are independent of potential outcomes (i.e. NTM protection). There are at least two main reasons why this assumption could fail. Firstly, there might be self-selection of cronies into sectors based on information they obtained due to their political connections that these sectors would receive higher levels of trade protection. The second reason why the sorting into treatment and control groups might not be independent of potential outcomes relates to sectoral characteristics. Even if cronies did not anticipate the outcome of future trade negotiations, they could have intentionally or unintentionally entered into sectors that were systematically predisposed to receiving greater trade protection in future. Our empirical strategy will aim to address these concerns. We discuss below the precise classification of treatment and control groups and the parsing of our estimation period into pre- and post-periods. Figure 3 schematically illustrates the overall set-up for our analysis.

FIGURE 3: Sequence of events and set-up for the baseline DID model

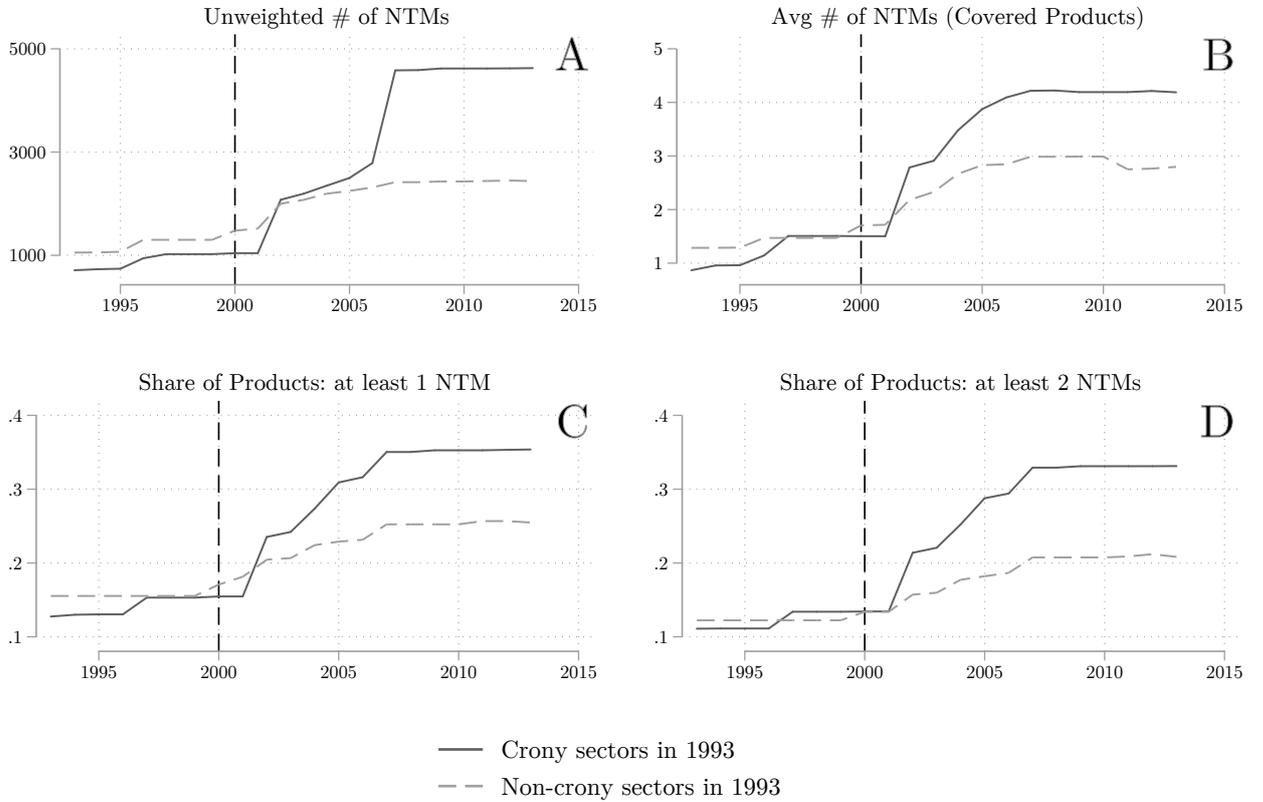


Sectors are classified as treated if cronies were present in the sector in 1993. This early cut-off date is chosen so as to precede Morocco’s entry into the WTO in 1994/1995, the signing of the Morocco-EU agreement in 1996, and the coming into force of this trade agreement in the year 2000. This should assuage at least some concerns of self-selection. With a cut-off date as early as 1993, the top-down nature of state-business relations, and

high levels of policy uncertainty, it is quite unlikely that cronies could have anticipated future changes in trade policy and selected into sectors likely to receive greater trade protection in future. We know that cronies continued to enter in manufacturing sectors in large numbers after 1993. By assigning these sectors into the control group, we are actually tipping the scales against our hypothesis.

The validity of our research design also depends on the assumption that patterns of trade protection for treatment and control groups would have followed a similar trajectory after the EU agreement had it not been for prior exposure to cronyism. In this context, it is important to show that the sectors classified as “crony” and “non-crony” follow a similar path with respect to outcome variables in the pre-period. As a first indication, Figure 4 considers four different measures of NTM coverage and shows evidence that treatment and control groups satisfy the parallel trends assumption. Panel A plots the unweighted number of NTMs, counted at the product level, for the two sub-groups. Panel B charts the evolution of the average number of NTMs applied to products covered by NTMs, which captures the intensity of NTM protection at a more granular level. Panels C and D plot the trajectory of the average share of products in a given sector that are subjected to at least one and two NTMs, respectively. The dashed vertical line indicates the year 2000 in which the EU agreement became effective. There is a noticeable spike in levels of NTM protection after the EU agreement. Importantly, for each measure there is strong graphical evidence of parallel trends before the cut-off date and substantial divergence afterwards between crony and non-crony sectors. In subsequent sections, we will present more rigorous statistical evidence on the absence of pre-trends.

FIGURE 4: Evolution of NTM protection across connected and unconnected sectors



Beyond establishing the broad similarity of treatment and control groups in the evolution of NTMs prior to the EU agreement, it is also important to control for sector-level characteristics that could determine the potential for NTM introduction after the agreement. To address this we firstly control for sector fixed effects at the ISIC-4 level in all specifications. Without these fixed effects we would be concerned that our results might be driven by the fact that some manufacturing sub-sectors are especially attractive for cronies in Morocco and could be prone to NTM protection (e.g. textiles, food, and automobiles). Secondly, we include sector-by-year interactions at the ISIC-2 level, which should capture dynamic sector-wide shocks that affect products within a sector equally. For instance, any EU-induced regulatory harmonization over time that operates at this broad sectoral level should be captured by these sector trends.

Thirdly, we control for several time-varying sectoral characteristics that could be correlated with crony presence and determine the potential for NTM protection. All our

regressions include the average MFN tariff rate and the average tariff rates charged for imports from EU. By including these tariff measures we allow for the possibility that sectors with higher tariff protection prior to the EU agreement, many of which are also crony sectors, are more likely to be compensated through NTMs in the post-period. We know that the level of tariff protection was higher in crony sectors and the resulting change was also more pronounced in these sectors (see Table A2 in the Online Appendix).

Informed by prior literature on the determinants of trade protection, we also control for imports and exports, both weighted by number of products in an ISIC-4 sector. Given that crony sectors have noticeably higher import levels we take care to include the import share in our specifications (see Table 1).<sup>34</sup> In some of our regressions, we are able to include the extended set of industry-level controls obtained from the INDSTAT dataset. Since the INDSTAT data covers Morocco only from 2000 onwards, we collapse the dataset into a two-period panel, where the first period represents an average of the pre-period and the second period represents an average of the post-period.<sup>35</sup>

We include two key dimensions of trade protection relating to business and labor interests. For business interests, commonly suggested variables are the concentration of seller and buyer firms, as well as measures of domestic entry barriers. For labor interests, commonly suggested variables are the number of employees in a sector, the unionization rate, sectoral unemployment, the average tenure of employees, and measures of occupation (e.g. skilled versus unskilled workers). Unfortunately, the data for Morocco is not rich enough to include all of these dimensions. However, the UNIDO INDSTAT database provides information on the number of employees and the number of firms operating at ISIC-4 level. If the government is concerned with protecting jobs, a higher number of employees in a sector should lead to greater trade protection. The number of firms in a sector can be taken as a rough proxy for seller concentration.

Apart from being able to include additional controls, a collapsed two-period DID model can also help to mitigate common concerns about inconsistent standard errors in DID regressions. Using annual panel data may result in serial correlation in the errors term thereby leading to biased standard errors. [Bertrand, Duflo, and Mullainathan \(2004\)](#)

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<sup>34</sup>Ideally, we would like to estimate the NTM equation jointly with an import equation. ([Trefler, 1993](#); [Goldberg and Maggi, 1999](#); [Lee and Swagel, 1997](#)). Previous studies typically use factor shares to specify the import equation. However, this data is not available for Morocco. We therefore have to rely on including actual imports in the NTM equation.

<sup>35</sup>Since the cut-off between pre and post periods is 2002, this allows us to use two years of INDSTAT data for the pre-period.

show that collapsing pre and post periods is an effective way of eliminating this bias. At the same time, collapsing the dataset leads to a loss of efficiency since variation is compressed. As a result, the bar for obtaining statistically significant results is higher.

## 4.2 FLEXIBLE SPECIFICATION

An important aspect in operationalizing the DID framework is the specification of the cut-off date between pre- and post-periods. Considering the sequence of historical events (see Figure 3), the choice of the cut-off date is not obvious *ex ante*. Although the agreement was signed in 1996, it came into force only in 2000, and its impact was not visible until two years later in 2002 (see Figure 4). This is unsurprising as the effects of a policy shock emerge with a time lag. To establish the appropriate cut-off date empirically and to provide a formal test of parallel trends assumption, we follow Nunn and Qian (2011) and estimate a fully flexible specification that includes interactions of the treatment variable with year dummies:

$$y_{it} = \sum_{j=1993}^{2013} \beta_j \text{treated}_i I_t^j + \mathbf{X}'_{i,t} \phi + \gamma_i + \rho_t + \epsilon_{i,t} \quad (2)$$

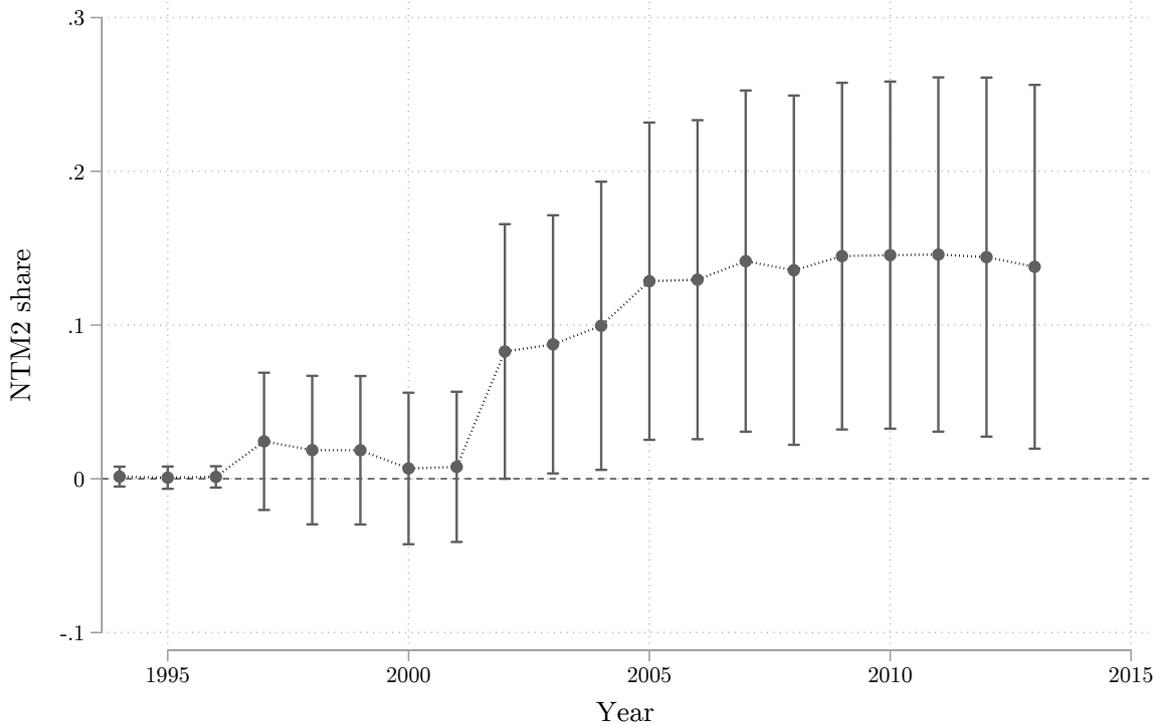
where  $y_{i,t}$  is the measure of NTM coverage,  $\mathbf{X}_{i,t}$  is a vector of time-varying sector characteristics (we initially include imports, exports and the MFN tariff rate), and the first term on the right-hand side interacts the treatment indicator with a year dummy.  $I_t^j$  takes the value 1 if  $t = j$  and 0 otherwise. Finding  $\beta_j$  coefficients that are indistinguishable from zero for years in the pre-period would indicate that our NTM measure followed a similar trajectory for treated and control groups prior to the EU Agreement.

Figure 5 plots the point estimates of the  $\beta_j$ s together with their 95% confidence bands, using the share of products covered by at least two NTMs as the dependent variable.<sup>36</sup> As Figure 6 shows, the coefficients are small and statistically insignificant before 2002 and become positive and statistically significant after 2002. We do not observe any clear patterns prior to the EU agreement but a clear discontinuity, both in size and significance of the coefficients, can be discerned from 2002 onwards when the EU agreement begins to have an impact. Guided by these flexible estimates, we choose 2002 as the appropriate cut-off date for defining the pre- and post-periods in our DID analysis.<sup>37</sup> We will subsequently demonstrate the robustness of our results to the cut-off date to 2000 or 1996.

<sup>36</sup>The results are similar for other NTM measures.

<sup>37</sup>I.e. 2002 is the first year included in the post period.

FIGURE 5: Flexible estimates of the relationship between Cronyism and non-tariff protection



*Note:* 95% confidence bands for the coefficients on the interaction between treatment and year dummies. Dependent variable is the the share of products covered by at least 2 NTMs.

### 4.3 MAIN RESULTS

In this section we present results for the baseline specification in equation 1 for different measures of NTM protection. Table 2 documents the results for the share of products covered by NTMs (unweighted coverage ratio). All specifications include the share of imports and exports, weighted by the number of products, and the MFN and EU tariff rates. Columns 1-3 shows results for all NTMs. In columns 4-6 we re-estimate our baseline model by replacing the dependent variable with a more refined NTM type, the share of products covered by the technical barriers to trade (TBTs).

Beginning in column 1, a positive and statistically significant coefficient on the post-period dummy suggests that there was a significant increase in NTMs after the EU agreement across the board. The coefficient on the interaction between treatment dummy and post-period dummy, capturing the main DID effect, is positive and statistically significant. However, the inclusion of ISIC-2 level sector time trends renders the coefficient on DID

interaction insignificant in column 2. In column 3 we present the estimates for a collapsed two-period DID model with additional controls. The coefficient on DID interaction is now marginally significant at 10 percent level. Overall, there is some modest evidence to suggest that crony sectors benefited from a greater NTM protection post-EU agreement than unconnected sectors.

We expect greater compensation for connected sectors through specific NTM types rather than generalized NTM protection. The bulk of NTMs in Morocco comprise technical barriers to trade (TBTs) that are more amenable to political manipulation and are more clearly geared towards trade protection.<sup>38</sup> Proceeding to results for TBTs in columns 4-6, the coefficient on the treatment term is positive and statistically significant at 5% level in both the annual panel (cols. 4-5) and the collapsed model (col. 6). This provides strong evidence consistent with our hypothesis that crony sectors received disproportionately higher levels of NTM protection through TBTs in the wake of EU-induced tariff cut.

These results are robust to controlling for tariff rates. In our annual DID regressions both the MFN and EU tariff rates turn up as significant. The coefficient on the EU tariff rate is negative while that on the MFN tariff rate is positive, both being statistically significant. This is in line with the hypothesis that NTMs were substitutes for declining EU tariff rates, but suggests at the same time that prevailing MFN rates place a limit on Morocco's ability to use NTMs for political purposes. In that sense, the world trading regime constrains the monarchy's ability to use trade policy for political economy purposes.

Our results are obtained after controlling for imports and exports. As [Trefler \(1993\)](#) pointed out, the amount of imports is endogenously related to the level of trade protection. If a high potential for imports leads to a higher level of trade protection, this will lower the actual level of imports. On the other hand, there is a negative and statistically significant impact of exports in the TBT regressions. This is consistent with a process identified by [Osgood, Tingley, Bernauer, Kim, Milner, and Spilker \(2017\)](#) whereby large exporting firms lobby in favor of trade agreements that lower tariffs in order to boost their own exports, even if this entails a reduction in protection for their own sector domestically. Additionally, it could simply reflect the fact that export-oriented sectors are systematically predisposed to less trade protection.

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<sup>38</sup>Around 11.5% of NTMs in the manufacturing sector are export-related measures and 17.4% are sanitary and phytosanitary measures (SPS) that may also apply to domestic producers, and apply to food products that had a special status in the EU agreement.

*Extended UNIDO controls.*—In the collapsed two-period model (columns 3 and 6), we are able to include a more extended set of industry characteristics, some of which differ across treatment and control groups (see Table 1).<sup>39</sup> We initially include two sector-level characteristics that capture the role of labor and business interests: number of employees and number of firms. If job protection is an important concern for the government, we would expect that a higher number of employees in an ISIC-4 sector should be associated with greater trade protection. We use the number of firms as a proxy for seller concentration in a given sector. Sectors with higher seller concentration can facilitate lobbying and collective organization, thereby influencing trade protection. The coefficient on employees is negative but indistinguishable from zero, whereas the number of firms is a negative and statistically significant predictor of NTM protection. The cronyism effect also survives the inclusion of additional covariates, such as value-added per firm and sectoral concentration of employees and output (see Table A5 in the Online Appendix).

*Intensity of NTM Protection.*—Beyond exploring the impact of political connections on NTM coverage, we also probe their impact on the intensity of NTM protection. To do so, we replace the dependent variable with two possible measures capturing the breadth and intensity of NTM protection: the share of products covered by at least two NTMs (*NTM2\_share*) and the average number of NTMs for products that are covered (*NTM\_avg2*). The results are reported in Tables 3 and 4, respectively. Beginning with the results for *NTM2\_share* we find a highly consistent set of results, whereby the coefficient on the treatment effect is statistically significant whether the outcome variable is defined for all NTMs (columns 1-3), restricted to TBTs (columns 4-6), or estimated for a collapsed DID (columns 5 and 6). There is strong evidence that politically connected sectors received a disproportionately higher level of NTM protection after the EU-induced tariff cut. The pattern of coefficients on imports, exports, the MFN and EU tariff rates is unchanged relative to baseline results.

In Table 4, we re-estimate our main specification for an alternative measure of the intensity of NTM protection, defined as the average number of NTMs applied to products that are covered by NTMs in a given sector. As the results show, the treatment status

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<sup>39</sup>Even when covariates are similar across the two groups, there could be important underlying differences. For example, the two comparison groups have similar averages for number of employees. This is driven, however, by a single unconnected sector, the garment manufacturing sector, which employs almost 34% of Moroccan manufacturing workers and is made of many SMEs by new entrepreneurs rather than the established business elite. This skews the mean, hiding the fact that most connected sectors employ a significantly higher number of workers. Employment is thus an important control variable to distinguish between the need to protect connected firms and to protect workers.

is a strong predictor of the evolution of overall NTM burden in the post-period in all specifications. The coefficient on the interaction between treated and Post is positive and statistically significant whether the dependent variable corresponds to all NTMs (columns 1-3) or restricted to TBTs (columns 4-6). The basic empirical patterns for TBTs are preserved if this measure is replaced with the average number of NTMs applied per product in a sector (see Table A6 in the Online Appendix).

Overall, our results provide strong evidence that politically connected sectors received significantly higher levels of compensatory trade protection through NTMs in the wake of the EU-induced tariff cut than the unconnected sectors. This finding is particularly robust and consistent with regards to technical barriers to trade that are more amenable to political manipulation, since they depend on administrative oversight and require inspections from government officials (see section 5). Controlling for the conventional determinants of trade protection suggested by previous literature does not diminish the strength of this finding. In fact, the estimates suggest that the impact of political connectedness is large relative to that of other factors such as labor interests or business concentration. Admittedly, data limitations do not permit controlling for all relevant factors we might have wished for. Nonetheless, the set of control variables is relatively rich, and sector-level fixed effects account for additional unobserved heterogeneity.

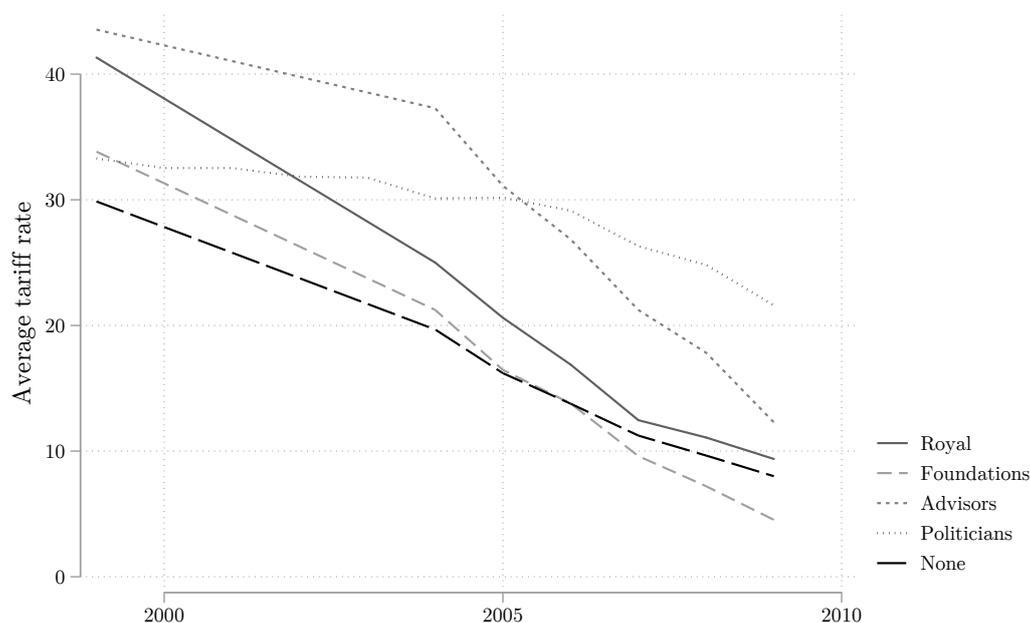
In terms of substantive significance, the effect is quantitatively large. The presence of political connections increases the average NTM coverage ratio of a sector by around 10-11% in the post-period. Products that receive NTM protection have on average 1.5 additional NTMs in connected sectors in the post period. Furthermore, restricting the focus of our analysis to products covered by NTMs, results suggest that connected sectors received, on average, roughly one additional NTM relative to those in unconnected sectors. This is substantial considering that the average product in the entire sample space receives only one NTM. Relative to the average of 1.6 NTMs per covered product our results suggest an increase in NTM protection of almost two-thirds in connected sectors.

*Royal versus Non-Royal Crony Firms* — We next disaggregate crony firms into royal and non-royal firms and analyze the differential trajectory of NTM protection in sectors populated by these firms. This can help us distinguish whether our findings are the result of the royal family attempting to enrich itself or the impact of lobbying efforts by connected businessmen and considerations of rent generation for co-optation. The former would be in line with [Rijkers, Baghdadi, and Raballand \(2015\)](#) who find that firms owned

by the Ben Ali clan systematically evaded taxes and fees, thereby enriching the ruling family.

Based on the classification of political connections outlined in section 3.1, we disaggregate politically connected firms into royal firms and two non-royal groups of cronies, the *Makhzen* and Politicians. For simplicity we group foundation board members and royal advisers together as the *Makhzen*. Figure 6 separately plots the evolution of tariff rates for the three types of crony sectors over time and shows a convergence of tariff rates across the three groups over time. While there is no evidence that sectors populated by royally-owned firms were liberalized more slowly, sectors with politician-owned firms appear to have retained higher levels of tariff protection after the EU agreement. This would lend further support to the argument that the differential pattern of NTM protection was driven by political influence, and underlines the importance of including tariff levels in our regressions.

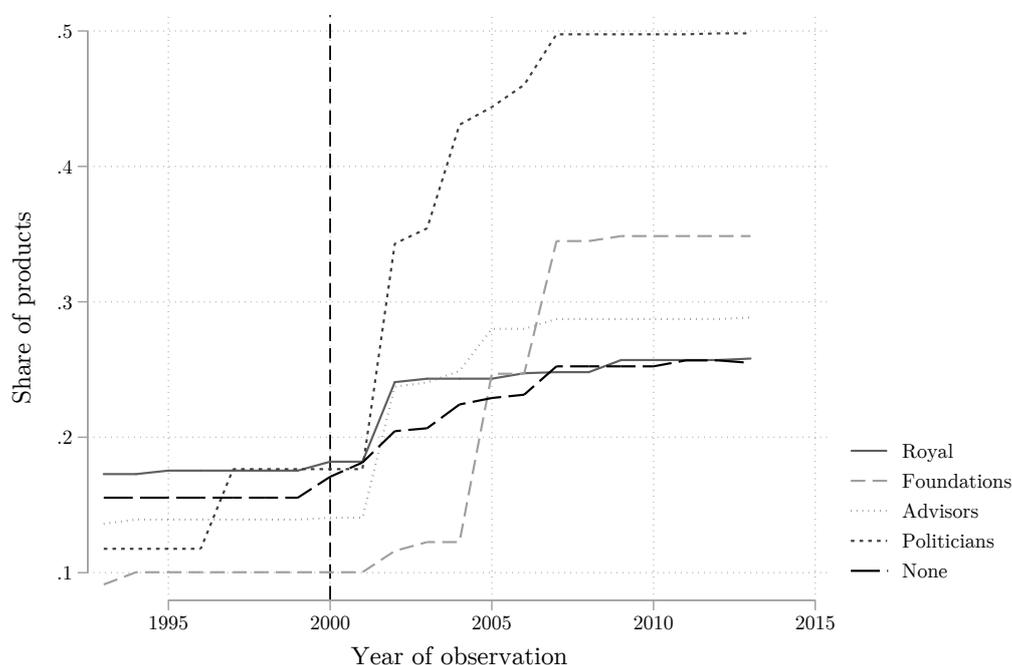
FIGURE 6: Evolution of average EU tariff rates, by crony type



Note: Data imputed for 2000-2003 and missing after 2009. Rate was the same as MFN in 1999. Royal Business Functionaries averages over two sectors only.

Plotting the evolution of NTM coverage (see Figure 7 for the share of products in a sector covered by NTMs) suggests that that the increase in NTMs after 2002 was principally driven by sectors populated by politicians-owned firms and, to a lesser extent, the *Makhzen*. To further support the graphical evidence in Figures 6 and 7, we re-estimated

FIGURE 7: Average share of products covered by NTMs, by crony type



our core specifications separately for royal and non-royal cronies. Table 5 reports the results for this exercise using our two main measures of NTM coverage applied to the refined set of NTMs (restricted to TBTs). Results are presented both for panel and collapsed DID models.

As the results suggest, the treatment coefficient is only statistically significant for specifications with non-royal crony classification (columns 1-4). When cronies are defined as royal cronies only in columns 5-8, the coefficient on the treated interaction term is statistically indistinguishable from zero. This suggests that there was no statistically significant difference in the burden of NTM protection between the royal crony sectors and non-crony sectors in the post-EU agreement period. In short, it is mainly the non-royal cronies that seem to have disproportionately benefited from the wave of NTMs introduced after the EU agreement.

Some explanation for this pattern might lie in the fact that the monarchy has a more significant and expanding presence in the services and financial sectors (e.g. real estate,

banking, and insurance).<sup>40</sup> Another possible explanation is that even if royally-owned sectors witnessed a comparatively smaller increase in NTMs post-2002, their protectionist impact in terms of ad valorem equivalents (AVEs) of tariffs might be higher. We provide suggestive evidence for this in section 5.

#### 4.4 PLACEBO TESTS

In section 4.1 we have offered suggestive evidence that NTM protection in connected and unconnected sectors was trending fairly similarly prior to the EU agreement. To provide more rigorous evidence in support of the parallel trends assumption, we now perform some placebo tests. For example, we re-estimate the baseline model using only data from the pre-period (1993-2002), and set a placebo treatment date in 1997.<sup>41</sup> Table A7 in the Online Appendix reports the results for our two main NTM measures, and for all NTMs (columns 1-2) and TBTs (columns 3-4). As expected, our coefficients of interest on the DID term are all close to zero and statistically insignificant across all specifications. Reassuringly, these results show that the effect of treatment on trade protection was mainly a post-2002 phenomenon.

#### 4.5 VARYING THE CUT-OFF

In defining the pre- and post-periods for our baseline model we were guided by the fully flexible specification in section 4.2. While the EU agreement was negotiated in 1996 and came into force in 2000, its true effect appeared with a lag. Indeed, our results have suggested a clear break between 2001 and 2002. Nevertheless, it is important to probe whether our findings are robust to choosing alternative cut-off dates for defining the pre- and post-periods. To this end, we first move the cut-off date to 2000 rather than 2002, otherwise maintaining our focus on the two NTM measures defined for TBTs. The results, documented in Table A8 in the Online Appendix (columns 1-2), are essentially unchanged. Our coefficients of interest are statistically significant at 5% level.

Next, we shift back the cut-off date further to the year 1996 when the EU agreement was originally negotiated. The plots in figure 4 suggest that there was little change in the non-tariff regime between 1996 and 2002, so we would expect to obtain weaker results

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<sup>40</sup>Evidence suggests that the monarchy and its entourage have substantially expanded their presence in non-tradables over time, leaving the manufacturing sectors to be principally dominated by politicians and former cabinet ministers. See Figure A2 in the Online Appendix).

<sup>41</sup>We also performed regressions with other placebo treatment dates. The outcomes were very similar and qualitatively unchanged.

for this exercise. Table A8 in the Online Appendix (columns 3-4) confirm this prior. The treatment coefficients are now noticeably smaller in size, and are only significant at the 10% level. Nonetheless, even though the data suggests that the real pick-up in NTMs happened only several years later, using a very early cut-off date still provides evidence that sectors exposed to politically connected firms benefited from relatively higher levels of NTM protection after the EU agreement. Overall, the results in Table A8 provide reassuring evidence that our core finding is not sensitive to the choice of the cut-off date.

## 5 DISCUSSION AND CONCLUSION

In this paper we utilize a large trade policy shock, triggered by Morocco’s Association Agreement with the EU, to investigate the politics of trade protection. The EU Agreement induced an across-the-board tariff cut that was followed by a wave of non-tariff protection that was unevenly distributed across sectors. This paper shows that sectors exposed to politically connected firms disproportionately benefited from this trade policy substitution. Our difference-in-differences analysis suggests that both the incidence and intensity of NTM protection was considerably higher for politically connected sectors relative to unconnected sectors in the wake of the EU agreement.

Disaggregating the analysis by types of NTM, we showed that politically connected sectors were primarily compensated through technical barriers to trade. Drawing on the fine-grained information on types of cronies compiled in our database, we were able to distinguish between sectors exposed to firms owned by royal family and non-royal firms. Although the King himself is one of the largest businessmen in the country, our results suggest that these differential patterns of NTM protection in the post-EU agreement period were mainly driven by non-royal firms that were owned by influential businessmen in the ruling coalition and comprised of cabinet members, royal advisers, and friends of the royal family<sup>42</sup>.

Our results contribute to the understanding of drivers of non-tariff measures. In this regard, our evidence on the use of technical barriers to protect politically connected actors holds special relevance. A growing share of the global product space is now covered

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<sup>42</sup>Note that while it is possible that NTMs in connected sectors could also benefit unconnected firms in those sectors, this does not fundamentally undermine our argument. Our statistical analysis shows that it is the presence of connected firms that drives the protection and, on average, connected firms receive more protection than unconnected firms. Moreover, at least in the sectors where such data is available, cronies control a large share of total revenue in their sectors, which effectively gives them a dominant role in those sectors

by technical barriers to trade. In Morocco, TBTs constitute 44% of all NTMs. Within these TBTs, there is an overwhelming reliance on conformity assessments and labeling requirements, which together comprise 96% of total TBTs (see Figure A3 in the Online Appendix). Findings of a business survey of NTMs showed that majority of Moroccan firms considered conformity assessments and pre-shipment inspections as the most prevalent and burdensome of all NTMs (ITC, 2012). Furthermore, the burden of these technical barriers did not stem from their regulatory content, but the procedural obstacles associated with their implementation by Morocco's customs and related agencies. Strikingly, about 99.4 percent of procedural obstacles arise in Morocco rather than in partner countries, and are primarily reflected in time constraints, informal or unusually high payments, and administrative burden (see Online Appendix). The dominance of procedural obstacles linked with domestic inspections makes these TBTs susceptible to discretionary enforcement. This is evident from survey respondents complaining about the "delays caused by inspections and the arbitrary behavior of agents responsible for their implementation" (ITC, 2012, p.42). Such discretionary enforcement of NTMs makes it easier to hide their political capture and abuse.

Enforcing such regulations can be especially challenging in weak institutional contexts. This is particularly true for Middle Eastern countries that are widely recognized for their weak implementation capacity and highly discretionary and unpredictable enforcement environment. In such institutional settings, regulatory requirements that appear innocuous on paper can effectively end up as trade frictions, drawing precisely the sort of wedge between de jure rules and de facto practice that is emphasized by Hallward-Driemeier and Pritchett (2015). Selective enforcement of trade regulations can make compliance with NTMs more burdensome and costly for unconnected firms. Global evidence suggests that the costs associated with compliance and conformity assessment weigh particularly heavily on developing countries and small firms (UNCTAD, 2012b).

As Disdier, Fontagné, and Cadot (2015) show, North-South harmonization of technical regulations can negatively impact trade between southern bloc countries. Importantly, the effect is shown to be primarily driven by regional trade agreements signed by the EU with developing countries. A recent survey of Arab firms provides further evidence in this regard. The survey shows that NTMs are regarded as burdensome by 44% of all Arab companies engaged in imports and exports. It also shows that NTMs act as a significant barrier to the expansion of regional trade among Arab economies, a long-standing barrier to prosperity in the region (International Trade Center, 2015). In this context, preferential

protection of politically connected sectors through NTMs can undermine competition, curb growth of SMEs, and adversely affect private sector development.

The welfare implications of the increase in non-tariff protection studied here are thus likely to be substantial. Morocco had one of the highest ad valorem equivalents (AVEs) of NTMs among the global sample countries in 2002 when such estimates were first compiled (Kee, Nicita, and Olarreaga, 2009). To analyze the overall welfare implications of this change in the structure of protection, we use a recent dataset of AVE estimates of NTMs that covers our estimation period (Niu, Liu, Gunessee, and Milner, 2018). Building on the methodology of Kee, Nicita, and Olarreaga (2009), this dataset provides HS-6 product-level AVE estimates for 97 countries over the period 1997-2015.<sup>43</sup>

We utilize these AVE estimates to explore whether products in politically connected sectors in Morocco enjoyed comparatively higher AVEs, on average, than unconnected sectors. For this comparison, we use estimates for 1997 and 2009, two respective years in pre- and post-EU agreement periods for which AVE estimates are available. In line with the global evidence, AVEs of NTMs registered a clear increase in Morocco during the 1997-2009 period for both politically connected and unconnected sectors. However, as expected, the concomitant increase was noticeably higher for politically connected sectors. As Figure 8 shows, the percentage increase in median AVEs in crony sectors was close to 300 percent compared with unconnected sectors where AVEs increased by 100 percent. A back-of-the envelope calculation based on these estimates shows the significant welfare costs of cronyism: median total trade restrictiveness (the sum of tariffs and AVEs) in connected sectors increased from 54% in 1997 to 58% in 2008. Had the AVEs of NTMs in connected sectors increased at the same rate as those in unconnected sectors, median trade restrictiveness would have fallen to 33% instead. This leaves a 25%pts gap attributable to cronyism.<sup>44</sup> Connected sectors also witnessed a greater within sector dispersion of AVEs. Relatedly, maximum AVEs were considerably higher in crony sectors. Finally,

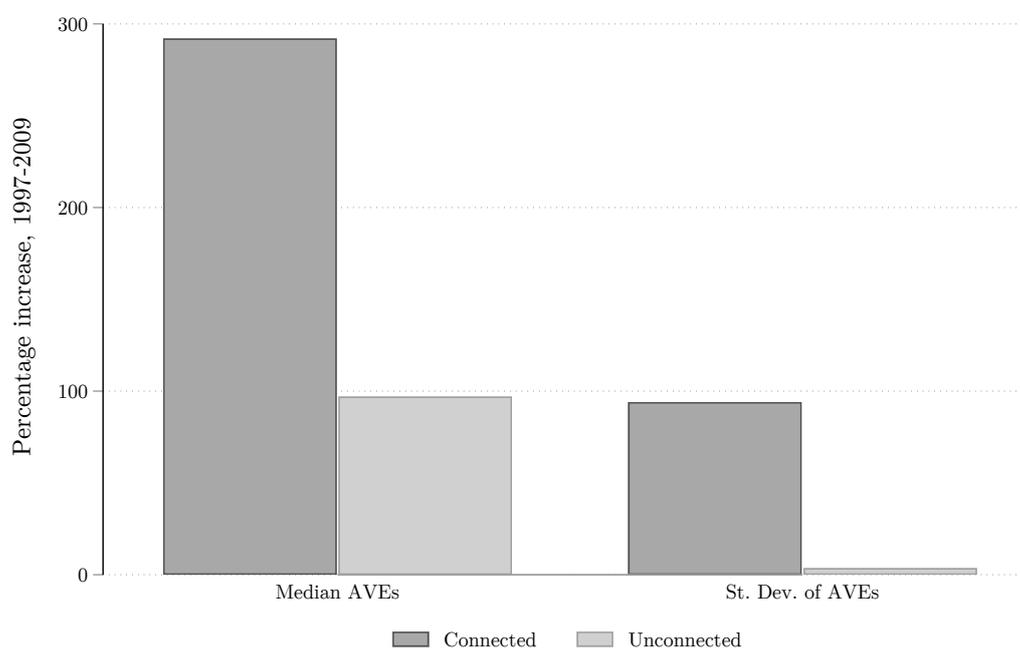
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<sup>43</sup>Like Kee, Nicita, and Olarreaga (2009), these estimates are better grounded in trade theory and allow a direct comparison with tariffs over time. However, unlike Kee et al. that estimated AVEs for a single year 2002, Niu, Liu, Gunessee, and Milner (2018) provide AVE estimates at three year intervals beginning in 1997 and ending in 2015.

<sup>44</sup>In 1997 the median tariff on EU imports in connected sectors was 41% and the AVE of NTMs 13%, adding to an overall trade restrictiveness of 54%. In 2009, the median tariff on EU imports in the same sectors was 7% and the AVE of NTMs was 51%, adding to an overall trade restrictiveness of 58%. In a counterfactual world in which median AVEs in connected sectors increased by the same proportion as those in unconnected sectors (i.e. by close to 100% rather than 300%) the median AVEs of NTMs in connected sectors would have reached only 26%. As a result, overall trade restrictiveness would have fallen to 33%.

differentiating crony sectors by type of political connections, we find that the median AVEs of NTMs in 2009 were higher in sectors with royally-owned firms (65 percent) when compared with non-royal sectors (49 percent). While purely illustrative, these numbers suggest that even if the increase in NTMs in the wake of EU Agreement disproportionately favored non-royal cronies, NTMs applied on royal sectors afforded comparatively greater trade protection.

FIGURE 8: Ad Valorem equivalents of NTMs



Our empirical findings bear important relevance for the literature studying the political foundations of trade policy. We show how authoritarian regimes can agree to sign international trade agreements but neutralize the political risks of doing so by continuing to reward cronies through partial trade liberalization. Substituting one form of trade protection with another tends to foster re-regulation, which favors politically entrenched actors. The rents from trade protection can feed members of the ruling coalition whose support is crucial for authoritarian stability. The evidence presented here highlights the remarkable resilience of rent seeking constituencies in the face of trade liberalization.

As many Middle Eastern states initiated trade liberalization in the late 1990s, there were renewed hopes that such liberalization would undercut the power of rent seeking groups. Such optimism is best summed up in the following quote from a former Syrian Minister:

“They (rent seeking networks) are still around, and they are powerful, but they are undergoing a change... They used to set the rules, we admit that, but they can no longer do so. It is the WTO (World Trade Organization) that they have to keep up with. So far, they have been feeding on government projects. Now they have to start competing.” (Abdallah Al-Dardari quoted in [Haddad, Bassam \(2011\)](#))

This paper shows that such optimism is misplaced in the Moroccan context. For developing countries more generally, an implication of our findings is that genuine trade reform is unlikely to take place without taking due account of the underlying politics of trade protection.

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TABLE 1: Summary statistics of main variables by crony and non-crony sectors using the 1993 cut-off (cross-sectional view, year 2000)

Variable	Manufacturing			
	Crony		Non-Crony	
	Mean	Std.Dev.	Mean	Std.Dev.
Avg MFN Tariff Rate	35.22	12.64	29.23	20.68
Avg EU Tariff Rate	34.92	13.71	28.11	21.09
Avg NTMs / Product	1.03	2.83	1.19	3.16
Avg NTMs / Covered Product	1.50	3.18	1.68	3.89
At least 1 NTM (product share)	0.15	0.32	0.17	0.34
At least 2 NTMs (product share)	0.13	0.30	0.13	0.30
At least 3 NTMs (product share)	0.13	0.30	0.12	0.29
Imports (in mio USD)	112	167	46	85
Exports (in mio USD)	54	150	47	241
Crony Firms (1993)	2.68	2.84	0.00	0.00
Crony Firms (2000)	3.28	3.69	0.04	0.19
Crony Market Share (2013)	0.36	0.37	0.01	0.11
Firms	71.01	81.73	53.84	168.15
Employees	4,607	5,311	3,795	19,132
Employees / Firm	95.22	105.05	74.46	107.94
Avg Wage (in USD)	6,032	3,248	5,040	3,279
Productivity (in USD)	56,905	84,534	41,420	50,242
Output (in mio USD)	222.61	296.72	81.95	192.72
Consumption (in mio USD)	328.38	378.99	93.89	137.20
Value Added (in mio USD)	62.99	74.34	34.03	104.54
Capital Formation (in mio USD)	14.53	15.56	5.47	13.35
Number of Sectors	44		77	

TABLE 2: Diff-in-Diff Analysis of the Determinants of the NTM Coverage Ratio

Dep. Var.	Share of products covered by NTMs			Share of products covered by TBTs		
	(1) (Panel)	(2) (Panel)	(3) (Collapsed)	(4) (Panel)	(5) (Panel)	(6) (Collapsed)
Post	0.0735** (0.0293)	0.0850*** (0.0291)	-0.0294 (0.0522)	0.0404 (0.0272)	0.0811*** (0.0280)	-0.0631 (0.0471)
Post X Treated	0.0993** (0.0432)	0.0616 (0.0378)	0.0883* (0.0490)	0.116*** (0.0426)	0.0914** (0.0368)	0.110** (0.0478)
Log Imports (wt)	-0.00923 (0.0267)	-0.00448 (0.0164)	0.0655 (0.0606)	-0.00449 (0.0266)	-0.00216 (0.0167)	0.0669 (0.0603)
Log Exports (wt)	-0.0342 (0.0322)	-0.0302 (0.0240)	-0.0711 (0.0453)	-0.0474 (0.0323)	-0.0453* (0.0232)	-0.0874** (0.0438)
MFN Tariff Rate	0.00504*** (0.00192)	0.00525*** (0.00177)	0.00778 (0.00641)	0.00469** (0.00187)	0.00482*** (0.00169)	0.00660 (0.00619)
EU Tariff Rate	-0.00511** (0.00201)	-0.00364** (0.00157)	-0.0127** (0.00640)	-0.00525*** (0.00195)	-0.00363** (0.00151)	-0.0126** (0.00604)
Employees			-0.00435 (0.00758)			-0.00304 (0.00758)
Firms			-0.00235** (0.00115)			-0.00263** (0.00104)
Constant	0.164*** (0.0251)	-2.870 (3.902)	0.423*** (0.136)	0.0536** (0.0243)	0.640 (3.638)	0.348*** (0.127)
Sector FEs	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes
Sect*Yr FEs	No	Yes	No	No	Yes	No
Sectors	119	119	116	119	119	116
Periods	17	17	2	17	17	2
NxT	2,023	2,023	229	2,023	2,023	229

*Notes:* The dependent variable is the NTM coverage ratio (NTM share, i.e., the share of products in the sector subject to at least one NTMs) in a given sector-year. Observations are at the sector-year level. Treated is a dummy variable that is equal to one for sectors with crony presence while Post is a binary indicator that is equal to one for the post-FTA years (2002 and after). Controls include the log of imports and exports weighted by the number of products, the MFN and EU tariff rates, and the total number of employees and firms. All regressions include year and sector fixed effects. Coefficients are reported with robust standard errors, clustered at the sector level, in parentheses. The sample is restricted to the manufacturing sector. \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

TABLE 3: Diff-in-Diff Analysis of Determinants of Breadth and Intensity of NTM Coverage

Dep. Var.	Share of products with 2+ NTMs			Share of products with 2+ TBTs		
	(1) (Panel)	(2) (Panel)	(3) (Collapsed)	(4) (Panel)	(5) (Collapsed)	(6) (Collapsed)
Post	0.0620** (0.0288)	0.0859*** (0.0287)	-0.0330 (0.0505)	0.0370 (0.0272)	0.0790*** (0.0281)	-0.0675 (0.0474)
Post X Treated	0.108** (0.0426)	0.0790** (0.0377)	0.0996** (0.0485)	0.114*** (0.0426)	0.0898** (0.0368)	0.106** (0.0478)
Log Imports (wt)	-0.00909 (0.0267)	-0.00309 (0.0167)	0.0606 (0.0612)	-0.00431 (0.0266)	-0.00222 (0.0166)	0.0672 (0.0602)
Log Exports (wt)	-0.0366 (0.0323)	-0.0403* (0.0240)	-0.0722 (0.0456)	-0.0485 (0.0323)	-0.0460** (0.0231)	-0.0899** (0.0437)
MFN Tariff Rate	0.00488** (0.00188)	0.00518*** (0.00173)	0.00766 (0.00633)	0.00477** (0.00187)	0.00490*** (0.00169)	0.00758 (0.00621)
EU Tariff Rate	-0.00502** (0.00196)	-0.00376** (0.00156)	-0.0122* (0.00623)	-0.00530*** (0.00196)	-0.00365** (0.00151)	-0.0135** (0.00607)
Employees			-0.00398 (0.00774)			-0.00280 (0.00764)
Firms			-0.00231** (0.00117)			-0.00261** (0.00104)
Constant	0.139*** (0.0247)	-0.653 (3.697)	0.387*** (0.133)	0.0306 (0.0242)	0.679 (3.644)	0.325** (0.127)
Sector FEs	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes
Sect*Yr FEs	No	Yes	No	No	Yes	No
Sectors	119	119	116	119	119	116
Periods	17	17	2	17	17	2
NxT	2,023	2,023	229	2,023	2,023	229

*Notes:* The dependent variable in columns 1-3 is the NTM coverage ratio (NTM2 share, i.e., the share of products in the sector subject to at least two NTMs) in a given sector-year. The dependent variable in columns 4-6 is the share of products in the sector subject to at least two technical barriers to trade (TBTs) in a given sector-year. Observations are at the sector-year level. Treated is a dummy variable that is equal to one for sectors with crony presence while Post is a binary indicator that is equal to one for the post-FTA years (2002 and after). Controls include the log of imports and exports weighted by the number of products, the MFN and EU tariff rates, and the total number of employees and firms. All regressions include year and sector fixed effects. Coefficients are reported with robust standard errors, clustered at the sector level, in parentheses. The sample is restricted to the manufacturing sector. \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

TABLE 4: Results For Alternative Measure of NTM Intensity

Dep. Var.	Intensity of NTM Coverage			Intensity of TBT Coverage		
	(1) (Panel)	(2) (Panel)	(3) (Collapsed)	(4) (Panel)	(5) (Collapsed)	(6) (Collapsed)
Post	1.591*** (0.409)	1.086*** (0.355)	0.896 (0.597)	0.739** (0.326)	1.166*** (0.269)	-0.285 (0.431)
Post X Treated	1.124** (0.453)	0.774* (0.410)	1.284** (0.515)	1.356*** (0.391)	1.083*** (0.311)	1.498*** (0.447)
Log Imports (wt)	-0.0232 (0.223)	0.0807 (0.211)	0.185 (0.588)	-0.000554 (0.182)	-0.0936 (0.158)	0.346 (0.440)
Log Exports (wt)	-0.0698 (0.264)	-0.0580 (0.216)	-0.254 (0.442)	-0.316 (0.208)	-0.0718 (0.144)	-0.656** (0.309)
MFN Tariff Rate	0.0553** (0.0255)	0.0341* (0.0201)	0.0480 (0.0704)	0.0371* (0.0189)	0.0236 (0.0145)	0.112* (0.0595)
EU Tariff Rate	-0.0391 (0.0246)	-0.0204 (0.0210)	-0.0598 (0.0655)	-0.0415** (0.0194)	-0.0198 (0.0152)	-0.150*** (0.0554)
Employees			0.173*** (0.0555)			0.195*** (0.0524)
Firms			-0.0104 (0.0128)			-0.0210*** (0.00616)
Constant	0.756** (0.347)	-90.91** (43.39)	1.600 (1.364)	0.248 (0.221)	-0.895 (29.60)	1.599 (1.062)
Sector FEs	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes
Sect*Yr FEs	No	Yes	No	No	Yes	No
Sectors	119	119	116	119	119	116
Periods	17	17	2	17	17	2
NxT	2,023	2,023	229	2,023	2,023	229

*Notes:* The dependent variable in columns 1-3 is the intensity of NTM coverage defined as the average number of NTMs per product for those products in the sector that are covered by NTMs in a given sector-year. The dependent variable in columns 4-6 is the intensity of coverage of technical barriers to trade (TBT), which is defined as average number of TBTs per product for those products in the sector that are covered by TBTs in a given sector-year. Observations are at the sector-year level. Treated is a dummy variable that is equal to one for sectors with crony presence while Post is a binary indicator that is equal to one for the post-FTA years (2002 and after). Controls include the log of imports and exports weighted by the number of products, the MFN and EU tariff rates, and the total number of employees and firms. All regressions include year and sector fixed effects. Coefficients are reported with robust standard errors, clustered at the sector level, in parentheses. The sample is restricted to the manufacturing sector. \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

TABLE 5: Split-Sample Analysis Disaggregating The Impact of Crony Presence by Royal And Non-Royal Cronies

	Non-Royal Cronies				Royal Cronies			
	(1) Panel NTM Share	(2) Panel NTM2 Share	(3) Collapsed NTM Share	(4) Collapsed NTM2 Share	(5) Panel NTM Share	(6) Panel NTM2 Share	(7) Collapsed NTM Share	(8) Collapsed NTM2 Share
Post	0.0811*** (0.0280)	0.0790*** (0.0281)	-0.0631 (0.0471)	-0.0675 (0.0474)	0.0410** (0.0174)	0.0410** (0.0174)	-0.0779 (0.0509)	-0.0779 (0.0509)
Post X Treated	0.0914** (0.0368)	0.0898** (0.0368)	0.110** (0.0478)	0.106** (0.0478)	0.0821 (0.0811)	0.0821 (0.0811)	-0.0182 (0.0510)	-0.0182 (0.0510)
Log Imports (Wt)	-0.00216 (0.0167)	-0.00222 (0.0166)	0.0669 (0.0603)	0.0672 (0.0602)	0.0266 (0.0162)	0.0266 (0.0162)	0.134* (0.0705)	0.134* (0.0705)
Log Exports (Wt)	-0.0453* (0.0232)	-0.0460** (0.0231)	-0.0874** (0.0438)	-0.0899** (0.0437)	0.00247 (0.0248)	0.00247 (0.0248)	0.0492 (0.0705)	0.0492 (0.0705)
MFN Tariff Rate	0.00482*** (0.00169)	0.00490*** (0.00169)	0.00660 (0.00619)	0.00758 (0.00621)	0.00384** (0.00154)	0.00384** (0.00154)	0.00106 (0.00442)	0.00106 (0.00442)
EU Tariff Rate	-0.00363** (0.00151)	-0.00365** (0.00151)	-0.0126** (0.00604)	-0.0135** (0.00607)	-0.00329** (0.00144)	-0.00329** (0.00144)	-0.00575 (0.00470)	-0.00575 (0.00470)
Employees			-0.00304 (0.00758)	-0.00280 (0.00764)			-0.0176 (0.0119)	-0.0176 (0.0119)
Firms			-0.00263** (0.00104)	-0.00261** (0.00104)			-0.00279** (0.00138)	-0.00279** (0.00138)
Constant	0.640 (3.638)	0.679 (3.644)	0.348*** (0.127)	0.325** (0.127)	4.223 (3.725)	4.192 (3.725)	0.257** (0.112)	0.229** (0.112)
Sector FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Sector*Yr FEs	Yes	Yes	No	No	Yes	Yes	No	No
Sectors	119	119	116	116	83	83	80	80
Periods	17	17	2	2	17	17	2	2
NxT	2023	2023	229	229	1411	1411	157	157

*Notes:* The dependent variable is the share of products in the sector subject to at least one or at least two NTMs respectively. See notes for Table 2 for further details. In columns 1-4 treated sectors are those with non-royal crony presence (firms connected with politicians, advisers, foundation board members), other sectors classified as non-crony. Columns 5-8 re-estimate the main DID specifications using an alternative classification of crony sectors as only those with royal crony presence. Other crony sectors were dropped from the sample, reducing the total number of sectors from 116 to 80. Columns 5-8 thus compare sectors with royal family connections to unconnected sectors. Observations are at the sector-year level. All regressions include year and sector fixed effects. Coefficients are reported with robust standard errors, clustered at the sector level, in parentheses. Sample restricted to the manufacturing sector. \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .