

# GENERAL AGREEMENT ON

# TARIFFS AND TRADE

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## TRADE POLICY REVIEW MECHANISM

### THE KINGDOM OF MOROCCO

#### MINUTES OF MEETING

Chairman: Mr. Rubens Ricupero (Brazil)

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I. INTRODUCTORY REMARKS BY THE CHAIRMAN OF THE COUNCIL

1. Introducing the discussion, the Chairman noted that the report by the Government of the Kingdom of Morocco was contained in document C/RM/G/2 and the report by the Secretariat in document C/RM/S/2. The report by Morocco followed the outline format for country reports agreed by the Council in July 1989 (C/M/235). The Secretariat had sought clarification from Morocco on its trade policies and practices, as far as the factual information contained in the first six Chapters of its report was concerned.

2. Recalling the procedures set out in document C/RM/1, the Chairman invited delegations to focus on the broad issues that emerged from the review of Morocco's trade policies and practices. Some contracting parties had given advance notice in writing of points to be raised, which had been passed on to the Moroccan delegation. He encouraged the parties concerned to focus on the principal points raised in those communications, and invited the representative of Morocco to intervene whenever he considered it to be appropriate in the course of the discussion. He thanked the two discussants for agreeing to assist, in their personal capacity, the Council in its collective evaluation and assessment. For the review of Morocco, Ambassador Kartadjoemena would act as the lead discussant and Mr. Witt would make supplementary remarks.

II. INTRODUCTORY REMARKS BY THE REPRESENTATIVE OF MOROCCO

3. In conformity with the Decision taken by the CONTRACTING PARTIES last April, the Kingdom of Morocco has the honour to submit its report on its trade policy and thus inaugurate the review mechanism as far as developing contracting parties are concerned.

4. In this statement, the Moroccan delegation does not intend once again to describe the contents of the report that was circulated to contracting parties in document C/RM/G/2. It will keep to the spirit of the exercise we are conducting at this special meeting by trying to contribute to the discussion concerning the experience of a developing country that has chosen a different approach to lead its economy towards the path of growth.

5. It was for this reason that, right after the Montreal Meeting, Morocco informally volunteered to be the first developing country to submit itself to the TPRM. Our Government took this decision although we had only just acceded to the General Agreement (Morocco has today been a contracting party for only 30 months) in order to affirm the importance we attach to strengthening the multilateral trading system based on the General Agreement and the unavoidable need we have felt to opt for transparency and predictability in the conduct of our trade policy. This is why we are playing an active part, within the bounds of our possibilities, in the Uruguay Round.

6. The structural reforms which the Kingdom of Morocco has made in its economic and trade system are entirely in line with the above-mentioned guidelines, which also underpin the Punta Del Este Declaration. In this connection, it is worth emphasizing that these reforms are the result of our own process of lengthy reflection and thoroughgoing assessment of our economic policy, a process in which we have been engaged since 1978. The main conclusion we reached was that there was no solution to our structural problems of economic growth unless our economy was integrated into the world trading system. This was the starting point for the concept of structural adjustment which we described in as much detail as possible in our report.

7. The successive programmes implemented with IMF and World Bank support were begun at a time when our foreign-exchange reserves were virtually zero and the current-account deficit exceeded 12 per cent of GDP. The world economic situation at the time could not have been worse, and the multilateral trading system was threatening to collapse. We have continued carrying out our reforms even though 30 to 40 per cent of our receipts from exports of goods and services and private transfers go towards servicing our rescheduled external debt, and the annual level of net transfers amounts to 3 to 4 per cent of our GDP.

8. The impact of our new policy and the reforms underpinning it is unquestionably positive, whether in terms of growth of exports, elimination of the current-account deficit or reduction of the budget deficit. The Moroccan experience clearly bears out the feasibility of a certain approach to the problem of economic growth in a developing country environment,

provided the reforms it comprises are designed and implemented by the country itself.

9. Nevertheless, our experience also shows that this approach has limits that are beyond our control or our resolve to forge ahead, but stem rather from the international community's inadequate response to our measures. Structural adjustment has high costs in the short term, whether in terms of the effects on foreign-exchange reserves or on public investment and saving, or in social terms. These costs, compounded by the siphoning off of resources for debt-servicing to an extent that becomes intolerable in the long term, are such that a country such as Morocco cannot support the process of liberalization of its economy alone and over a long period.

10. With the greater interdependence of economies following the gradual opening of the developing countries' trade borders, it is essential that the international community of industrialized and surplus countries should respond by increased support and greater solidarity. Better access to markets, a reduction in the sheer size and the service burden of the foreign debt, and enhanced flows of direct investment and of bilateral and multilateral funds in general are vital conditions for the pursuit of structural reform policies and the consolidation of the benefits which the reforms have brought and which remain, in the final analysis, highly precarious.

11. To return to the crux of this exercise, in so far as we are the first developing country to undergo this review we consider it important to highlight a number of fundamental points. The first concerns the virtues of this mechanism for small trading nations. Given our limited means, it is hard for us to follow, in the necessary detail, the developments in the trade policies of the contracting parties that play a major part in world trade, and to assess their impact on our own economies. This mechanism should therefore clearly enhance our negotiating capability. The second remark relates to our national context. To prepare a report such as the one we have submitted implies the availability of a considerable quantity of data and skills which are, sadly, all too often lacking in developing countries. In this connection, we cannot emphasize enough the importance of technical assistance from the Secretariat in the future reviews concerning developing contracting parties.

12. The Moroccan delegation would like to take this opportunity to apologize in advance to the delegations here for any shortcomings they may find in our document. We shall do our best to make up for them in our replies to their questions during the discussions. It would be remiss of us not to highlight that this exercise has been a "learning experience" both for our authorities and for our trading community. It is one thing to draw up regulations for international trade, and yet another to apply them; but it is also a completely different thing to explain them fairly in a report for the contracting parties, in the sense that one learns a good deal about oneself.

13. My third remark is that, as you pointed out, Mr. Chairman, we are not here to settle disputes but to listen to the comments of contracting

parties, and above all to their advice, which should enable us to add to our own experience, in the interests of fuller participation in a more transparent and also, it must be said, more equitable world trading system. We firmly believe that this exercise, conducted in the family spirit that prevailed yesterday during the review of Australia, should give the GATT a decisive boost.

14. To conclude, I should like to take you back in history. Admittedly, my country has a very marginal share in the volume of international trade; but besides the fact that world markets are important to our economy, I should like to recall here that Morocco is one of the oldest trading nations in the world. For instance, Morocco was the first country to sign a treaty with the United States in 1787, in which provisions concerning trade in goods and services were agreed. I might also refer to other treaties concluded in the 16th, 17th and 18th centuries in which the most-favoured-nation principle was explicitly adopted not only for trade in goods but also for trade in services, through clauses relating to navigation and sea transport.

15. I have recalled the above to bear out the fact that our attachment to free international trade, without any distorting constraints, is nothing new for us: it is part of our culture. That is why we are prepared to play the game, and our contributions to the ongoing multilateral trade negotiations must be viewed in this context.

III. STATEMENT BY THE LEAD DISCUSSANT

16. I am pleased to open the discussion on the trade policy of the Kingdom of Morocco in the GATT Trade Policy Review Mechanism exercise. At the outset, allow me to congratulate the Government of Morocco for the excellent and highly informative paper presented for consideration of the Council. As an official of a developing country with some experience in similar exercises connected with other international organizations, I know how technically difficult the preparation for such a paper can be. May I also express my appreciation to the Secretariat for the excellent paper prepared for this meeting which has facilitated my task of understanding the trade policy of Morocco.

17. As reported in the paper by the Government of Morocco and the supplementary Secretariat paper, the central thrust of the economic policy of the Government of Morocco is the effort to undertake extensive measures of trade liberalization and domestic restructuring of the economy. As noted by delegations yesterday, this theme was prevalent in the case of Australia. Today, we may also note that this theme of reform is also prevalent in Morocco.

18. Before I deal with the specific policy aspects of our review of Morocco, I believe it is useful to highlight further both the difficulties faced, and the necessity felt, by many developing countries, to undertake extensive economic restructuring and reform. This point, I believe, is worth making because when we look at the dynamic process of trade liberalization over the years to come, the question of the process of deregulation and economic restructuring in developing countries becomes quite important in contributing to the functioning of a more open world trading system. A greater understanding of the commitments of all developing countries to achieve economic development through restructuring, through further integration into the global system, and through trade liberalization would help us to appreciate the contribution of such commitments to improving the functioning of the multilateral trading system. At the same time, it would provide a more accurate expectation of the problems implied and the cooperation needed by the international community.

19. Let us now move more specifically to the subject of our discussion, the trade policy of Morocco. We may note, as pointed out in both the Government report and the Secretariat paper, the longer-term structural reality of Morocco is that it is a small trading nation, a developing country, 40 per cent of whose population derives its livelihood from agriculture, although arable land and water is scarce. Large scale farms, one million hectares or 14 per cent of farm land, produce 25 per cent of farm output and a major part of agriculture exports. Agriculture accounts for 20 per cent of GDP in 1987. In terms of exports, agriculture accounts for 31 per cent of total exports. This share, in turn, represents a sharp decline from the position of agriculture in 1970, when its share was 57 per cent of Morocco's total exports.

20. Mining, although representing only 4 per cent of GDP output, represents an important part of exports, occupying a share of 18 per cent of total exports. In this sector, its main item, phosphate, accounts for 15 per cent of total exports in 1987. However, in terms of employment, mining accounts for only 1.6 per cent of total employment. By contrast, manufacturing, although still 18.8 per cent of GDP, accounts for some 50 per cent of Morocco's merchandise exports. Moreover, it absorbs 17 per cent of employment.

21. In the case of Morocco, therefore, the importance of labour-intensive, light manufacturing is evident from both the export and employment perspectives. Delegations may wish to enquire further about the problem of market access in manufacturing exports as Morocco shifts its emphasis on manufacturing and processing.

22. Services, which account for a share of 50 per cent of GDP, absorb 34 per cent of employment. Morocco gains substantial revenue from trade in commercial services, largely from tourism. Moreover, 10 per cent of Morocco's labour force works abroad. Consequently, workers' remittances represent an important source of foreign exchange earnings. As an effort to understand better the structural and balance-of-payments problems of Morocco, delegations may be interested in hearing more from the Moroccan delegations about the problems of exports in services of a developing country such as Morocco.

23. Looking at the more fundamental structural characteristics of the Moroccan economy, one principal feature of concern is that dependence on agriculture and natural resource-based products makes the Moroccan economy vulnerable to climatic fluctuations, to market access and subsidies to agriculture abroad, and to the specific world demand for phosphates. Accordingly, Morocco intends to continue to seek diversification of its economy and of its exports. Delegations may wish to learn more about the problem of diversification in Morocco both from the point of view of domestic restructuring as well as market access.

24. Moreover, Morocco is a trading nation whose dependence on international trade can be seen from the increase in the ratio of trade to GDP. In 1970, the ratio of trade to GDP was already 28 per cent. In 1988, it rose significantly to 43 per cent. Therefore, Morocco is increasingly affected by developments in international trade. Maintaining competitiveness is therefore understandably a major policy concern. A slight disruption in demand or in market access prospects would have a direct and major impact on the domestic economy.

25. In terms of some of the major domestic policies, one may note that, following a sharp decline in terms of trade and poor harvest, Morocco experienced a major balance-of-payments crisis in 1983. The crisis, though it presented serious political, economic and social hardship, was also an opportunity to review some of the major policy decisions of the past and to make appropriate modifications.

26. Looking at the history of Morocco's economic policy, we may note that in the 1970s, a commodity boom encouraged the Government to adopt a strategy of accelerated growth through high levels of public investment. Government expenditure increased and external debt expanded at a high rate, encouraged by low, or even negative, levels of real interest rates. During the second oil shock, terms of trade turned unfavourable to developing countries and phosphate prices fell. Coupled with poor harvests, the country faced a high food import bill as well. By 1982, a major economic difficulty had surfaced requiring immediate attention. The budget deficit grew to 12 per cent of GDP. The country's external public debt, outstanding and disbursed, stood at 61 per cent of GDP compared with only 18 per cent in 1970. Thus, large internal and external imbalances led to a serious balance-of-payments crisis in 1983. That situation led to a series of rather difficult decisions which required some political courage because of the domestic risks they implied.

27. The Government responded to the crisis and attacked both the longer term fundamental weaknesses as well as the immediate problems at hand. Morocco undertook a comprehensive adjustment programme involving trade liberalization, reduced government intervention and administrative, financial and fiscal reforms. The steps involved include a combination of painful austerity measures, debt relief and rescheduling, and real devaluation of the currency. These measures contributed to lowering the budget and external deficits.

28. Nevertheless, despite the serious efforts and major steps taken, we should note that, for 1989, it is estimated that Morocco will face a worsening trade deficit largely due to weakening export performance. Overall, in the immediate future, Morocco will continue to be a highly-indebted country. The burden of debt-servicing will continue to be a major constraint for its development.

29. The major thrust of the economic policy of Morocco can be summarized as follows. A basic tenet of Morocco's current trade policies is that sustainable growth will depend on export expansion. To achieve this, it is necessary that the anti-export bias of the previous import-substitution policy be reduced. Moreover, efforts need to be continued in the direction of promoting more value-added exports, to supplement, if not to replace, the dependence on exports of unprocessed agriculture and other primary products. The policy pursued has contributed to the increase in the share of semi-finished and manufactured products from 44 per cent of total merchandise exports in 1984 to 51 per cent in 1988.

30. Much remains to be done in pursuit of Morocco's comprehensive structural adjustment programme which the Moroccan Government has chosen. Delegations may wish to ask the future direction of reform. As in the case of any major policy implementation, it will take some time before the fruit of the reform could be harvested. Moreover, whether the measures envisaged and further steps to be taken for liberalization could be sustained does not only depend on the domestic political will which Morocco has clearly shown. It also depends on whether the growth of world trade and the global economy will be sustained, and, more directly, whether the global market

remains open. That is why for developing countries the Uruguay Round must succeed. However, some of the results of the reforms can already be identified. The most serious macro-economic problems are more under control. It will be interesting for us to see the progress made when Morocco will give its presentation the next time around.

31. By way of conclusion, I wish to make a few personal notes. As a former central banker, I can testify as to how difficult some of these reform processes can be. In this connection, I would like to note that while such reforms by developing countries appear to be sufficiently recognized in other international fora such as the IMF and the IBRD, they have yet to receive the fullest recognition and appreciation in GATT. So far, if I may say so, recognition has been somewhat muted. The reason is probably that the full extent of the process of reform was not clearly understood.

32. In the GATT, previously, there has not been this opportunity to present the situation of a country. This is one of the merits of the TPRM process. It gives the opportunity for each country to explain its trade policy more fully and in a receptive atmosphere. I hope that in the future the TPRM process could help us to move further in that direction of greater understanding.

33. During the discussion on the report of the Director-General this week, the Moroccan delegation pointed out the asymmetry with regard to the process of reform and structural adjustment. While many developing countries have undertaken reforms and liberalization, we are concurrently witnessing signs of movement in the opposite direction in some major developed countries, particularly in areas of importance for developing countries. This point needs to be highlighted.

34. As for the progress in the reform process in the developing countries, in the long-run, signs of lack of encouragement for the reform process, by sheer lack of recognition, may undermine the steady progress of deregulation, liberalization of trade and structural adjustment which are vitally necessary for the maintenance of an open world trading system. Through this new institutional innovation, the TPRM, I hope that we would have the opportunity to gain some transparency in order to have greater understanding of the liberalization process in developed and developing countries. I hope that the mechanism of reform may be better monitored and appreciated, and that the momentum be kept steady for the benefit of the international community.

35. My fellow discussant, Mr. Witt will delve further into the specific trade policy aspects of general interest to delegations. In describing the overall economic fundamentals, I hope that the discussions on trade policy could be cast against the broader picture of Morocco's overall economic realities so that in going into the specifics, the overall situation of the country could receive due appreciation by the contracting parties.

**IV. SUPPLEMENTARY REMARKS BY THE SECOND DISCUSSANT**

36. My first remark is very personal and of a general nature. Both reports, by the Government and by the Secretariat, are outspoken evidence of the remarkable change in Moroccan trade policies since 1983. My co-discussant has already pointed to the wider economic and developmental context. I am convinced that the Council will pay special attention and particular tribute to the fact that a new contracting party has not only participated very actively during the past two-and-a-half years in the work of the GATT and the Negotiating Groups of the Uruguay Round but has also volunteered for this new Trade Policy Review Mechanism.

37. For the following remarks I would like to apply the same method of procedure which I used yesterday, i.e. use six basic GATT principles to appreciate and evaluate the trade policies of Morocco:

- Are trade policies and practices transparent?
- How far has the principle of non-discrimination been realized?
- How far has the principle of "tariffs only" been adhered to?
- Do the trade policies and practices contribute to a liberalization of trade? What is the pattern and degree of protection?
- Is there an adequate degree of stability and predictability?
- What is the record with regard to dispute settlement and adherence to the multilateral system?

38. Long before Morocco became the ninety-fourth contracting party in 1987, the Moroccan Government embarked on a major programme of trade liberalization in 1983. The direction of the new policies seems to be clear: it is towards a more liberal trading system. But it appears as if the policies of liberalization may have lost some momentum since 1987, due to a number of outside developments. Is there a danger of slowing down, or even stepping back?

39. Let me continue with some specific questions, constructive questions I hope, in order to help us better understand the underlying intentions and constraints.

40. The abolition of import prohibitions made tariffs the leading instrument of protection, even after maximum tariffs were reduced from 400 to 45 per cent. But could the import licensing system not also be used for protective purposes, especially after further tariff reductions? On Monday, we learned from the Director-General's report that between 1987 and 1989, 852 items were transferred from list B to the automatic licensing of list A. What are the criteria for the transfer of items? Are they discretionary? What are the further intentions of the Moroccan Government

in this respect? Is there already a timetable for further liberalization, especially with regard to manufactured products?

41. Morocco negotiated and agreed to some tariff bindings only, when joining the GATT. Are there any plans to increase the level of bindings? In the meantime, there have been tariff increases in certain instances, even during the Uruguay Round negotiations. The introduction of the fiscal levy of 12.5 per cent on imports in 1988 consolidated previous taxes and duties which had apparently already been scheduled to be reduced if not abolished. For a few products, the addition of the fiscal levy even raised total duties beyond bound rates. Why was this fiscal measure introduced at all, and why only as an additional burden on imports?

42. The Council might also evaluate the function of reference prices as a protective means in the Moroccan import system. Table IV.1 on page 34 of the Secretariat report illustrates how many products are covered. What is the net effect of this system of reference prices, e.g. in terms of customs value? For how long will this system provide effective protection? Is this method really transparent? With the expected phasing out of protection by reference prices, Morocco is considering the introduction of anti-dumping legislation. Could more information already be given on this, and also on the possible use of variable levies permitted under the new legislation?

43. In paragraph 184, the Secretariat says "When looking at both tariff and non-tariff protection, it appears that levels of protection differ across the various sectors of the economy. Relatively highly-protected areas include some of Morocco's major export items such as phosphoric acid, processed food and clothing". Could the Moroccan delegation elaborate on the declared intention to harmonize levels of protection across all sectors?

44. With regard to non-discrimination, both reports point to the rather large number of bilateral agreements entered into by Morocco, of which the Agreement of Association with the EC is the most important (54 per cent of total trade). These agreements are generally based on the m.f.n. principle. The only departures in terms of preferential treatment are within the framework of bilateral and regional agreements involving trade with developing countries. Secondly, in the Government report (p. 25) it is said that regulations on government procurement do not contain any form of discrimination and that procedures are transparent. Is this view shared by the Council? Are the timespans (usually two weeks) really sufficient for foreign participation? And finally, it might be interesting to learn how the Moroccan Government view the future rôle of State-trading monopolies.

45. On the topic of transparency, I cannot say very much except that both reports are in themselves good examples of how transparent the new liberal trade strategy seems to be as compared to the past. Yet there are less transparent elements as well, such as the reference price system, public health provisions or perhaps even government procurement.

46. Stability and predictability seem to be adequate for a country engaged in major economic reforms. It is obvious that a greater degree of tariff binding would increase certainty about market access. For the record, I may note in passing that Morocco has not yet been involved in trade disputes in the GATT, but wants to rely on it as an essential element because it assures the security and predictability of the multilateral system.

47. The Secretariat report says that the Moroccan Government is reviewing the possibility of joining certain Codes. Does Morocco have any intention to join the Tokyo Round Codes, e.g. the Customs Valuation Code?

48. Let me finish my remarks by stating that the trade policies and practices described in the two reports are a convincing proof of the conviction last expressed by the Moroccan Ambassador during the Session of the CONTRACTING PARTIES a few days ago. He said that Morocco decided for liberalism as an economic philosophy and for the market principle as the means to gain efficiency, and that there was no alternative but to promote world trade more effectively on the basis of the strengthened General Agreement. Morocco had volunteered for this TPRM to prove that it is putting all its trust in the multilateral system. I am convinced that this point has been well understood.

V. STATEMENTS AND QUESTIONS BY MEMBERS OF THE COUNCIL

49. Members of the Council congratulated Morocco on being the first developing country to volunteer for the trade policy review. This was particularly commendable in light of its recent accession to the GATT. Participants appreciated both the Government and the Secretariat reports which were considered of high quality, valuable and informative. All participants recognized and appreciated the extensive trade liberalization efforts that had been undertaken by Morocco. Some members emphasized that Morocco's commitment to trade liberalization was particularly impressive in the face of its adverse external trading and financial environment. Several members posed questions relating to the details of, or rationale for, certain policies and practices, while generally noting that comments were being made in a spirit of cooperation.

50. The representative of the United States commended Morocco for its import liberalization efforts, including the abolition of import prohibitions, the reduction of tariffs and the significant level of tariff bindings. He encouraged Morocco to continue with these policies, stressing the desirability of the removal of licensing restrictions, further reductions in tariffs and increased scope of tariff bindings. He urged Morocco to ensure the conformity with GATT provisions of its anti-dumping legislation, to notify its export incentives under Article XVI, and its State trading practices under Article XVII. He also recalled the right of contracting parties to be informed of trade agreements that derogate from the m.f.n. principle.

51. The representative of Chile noted the precarious financial situation faced by Morocco: debt servicing absorbed one third of foreign exchange earnings, and Morocco was currently a net exporter of capital. As stated in the Government's own report, the debt burden was an obstacle in generating adequate investment capital. Morocco's liberalization policies were therefore particularly impressive. He called attention to the link between trade and financial questions, and the need for better access for Morocco to its major markets, where many of its exports, such as textiles and agricultural products, faced import restrictions.

52. The representative of Nigeria joined in praising Morocco for the liberalization efforts it had made in the face of problems general to many developing countries. Recognizing the challenge of further trade liberalization, he expressed optimism that Morocco would achieve its objective.

53. The representative of the European Communities expressed satisfaction with the overall tone of the review process and in particular appreciated the transparency with which Moroccan trade policies had been presented. The transition from an import substitution to an export promotion policy was not always smooth. Overall, however, Morocco was moving in the right direction. The rôle of the external environment was an integral part of the assessment process. Both macro-economic factors, such as coherence between monetary, financial and trade questions, and access to foreign markets should be considered in this context. Successful export

development required economies of scale, justified by external market size; as Morocco's major trading partner, the European Communities had opened its market to Morocco and would continue to do so. He added that he would be submitting questions regarding specific points.

54. The representative of the Norway, speaking on behalf of the Nordic countries, posed a number of questions regarding export performance and diversification, the effect of changes in tariffs on local industries, the likelihood of the introduction of measures to forestall the deteriorating balance-of-payments situation, and the willingness of Morocco to offer its liberalization measures as a contribution to the Uruguay Round negotiations.

55. The representative of Australia remarked on the similarities between the Australian and Moroccan economies, in particular their dependence on exports of raw materials, the influence of climatic conditions on agriculture, and the vulnerability of their respective tradable goods sectors to price fluctuations. He noted that both Morocco and Australia had responded to external problems by integrating their own economies more closely into the world economy. Australia and Morocco, like the vast majority of contracting parties, were small trading nations dependent on a rule-based system and stability in major markets. He asked for details on, or the rationale behind, certain trade practices, including the system of reference prices for certain products; the commercial viability of the State insurance scheme for exports; recent substantial fluctuations in the tariff on crude oil; constraints on Moroccan exports due to the European Communities' Common Agricultural Policy; above-average tariffs and import licensing for certain agricultural products in Morocco; and the planned introduction of variable levies on major imports of agricultural products.

56. The representative of Canada said that Morocco's choice of trade liberalization as an intrinsic part of the structural adjustment programme implemented in 1983 to ease the external financial burden was encouraging. The enhancement of trade by reducing protectionist measures was the correct response to problems of debt and development and helped to create a dynamic economy. His delegation looked forward to even fuller participation of Morocco in the Uruguay Round and the multilateral trading system. While the reduction of tariffs and the replacement of import licensing with tariffs were positive developments, the level of protection still remained relatively high. Existing tariffs, combined with the fiscal levy imposed on revenue grounds, remained constraints; applying the tax burden more equally between imports and domestic production would have desirable effects on domestic resource allocation and make a further contribution to the multilateral trading system. He requested clarification concerning the possible introduction of variable levies on agricultural products. In light of the negotiations on agriculture, his government would discourage Morocco from applying such a system. He encouraged Morocco to continue its liberalization efforts, which set an example for countries in similar situations. In conclusion, he agreed with the importance Morocco had placed on cooperation between the IMF, World Bank and GATT in light of the increasing linkages between trade and finance.

57. The representative of Hungary said that Morocco's liberalization of economic and trade policy since 1983, the latter manifested by the liberalization of 88 per cent of imports, benefited the growth of trade in goods and services. He announced that a new trade agreement had been concluded on 23 November 1989 between Hungary and Morocco. The agreement was consistent with the rights and obligations of the General Agreement and contained no indicative levels of bilateral trade.

58. The representative of Switzerland paid tribute to Morocco for its major efforts to bring about liberalization and adjustment and the results achieved. Morocco's efforts were in the right direction and consistent with the GATT philosophy. Its achievements were even more noteworthy given its stage of development and constraints such as population pressure, food supply and external debt. Concerning the compatibility of trade policy with the adjustment programme, he asked whether export promotion was aimed at improving the conditions required for export competitiveness or actual ability to compete. He also asked whether the transition to liberalization had gone according to Morocco's expectations and whether sufficient progress had been made to set dates for the dismantling of remaining restrictions and a further reduction in tariffs. He wondered whether the devaluation of the currency had not offset the considerable reductions in tariffs. Despite the elimination of many import barriers, there was still plenty of potential for further liberalization. While welcoming Morocco's positive attitude to foreign investment, he asked why an investment promotion agreement between Morocco and Switzerland, signed in December 1985, was still awaiting Moroccan ratification. Its entry into force should help to further improve the investment climate in Morocco. He also expected that the Uruguay Round negotiations would help to reduce trade barriers which were seen as hampering Morocco's adjustment programme.

59. The representative of Côte d'Ivoire noted the commendable choice Morocco had made in opening up its economy to world competition and the measures, including the increasing flexibility of administrative procedures and the attempt to harmonize levels of protection, it had undertaken to eliminate trade distortions. The continuation of these efforts showed the faith that Morocco had demonstrated in the multilateral trading system through the examination of its trade policies. Opening up of markets to exports from Morocco and strengthening of the trading system on the part of developed contracting parties would provide valuable encouragement to further liberalization.

60. The representative of India commended Morocco for all the trade policy changes adopted in the context of its structural adjustment programme, including the reduction of tariffs and the extensive elimination of import restrictions. The scope of tariff bindings was high for a developing country and perhaps even higher than for some developed countries. Macro-economic policy changes, including the reduced rôle of state monopolies, the deregulation of financial markets and tax reform, had helped to resolve the balance-of-payments crisis. The international community should recognize the difficulties confronting Morocco and encourage it in its liberalization efforts. The significant share of trade with one major group of countries implied a special responsibility on that

group to encourage Morocco's exports. He was pleased to note that India had been the second largest importer of goods from Morocco in recent years. In light of the agrarian nature of the Moroccan economy, successful negotiations in agriculture would help to improve exports and foreign exchange earnings. Nevertheless, the Indian delegation considered the domestic support policies in place in Morocco as appropriate for a developing country which was required to face the structural imperfections of world agricultural markets.

61. The representative of Japan said that the progress in industrialization, international competitiveness and export diversification achieved by Morocco set a good example for developing countries in similar situations. He encouraged Morocco to continue its structural adjustment programme and pursue improvements in its trade regime: these would, in turn, help to resolve its debt problems.

62. The representative of Brazil queried the use of the term "subsidies" in lieu of "internal support" as had been used in other Secretariat reports. With reference to the Secretariat report (C/RM/S/2), he stressed that Morocco's efforts, in the face of an adverse external environment and a fragile economic structure, to undertake a comprehensive structural adjustment programme were particularly courageous. Some members had mentioned that Morocco should take further steps towards liberalization: in fact, this was incumbent on all contracting parties and particularly the larger trading nations. Trade policy aimed at achieving sustainable growth through export expansion would depend on the opening of the developed country markets which were Morocco's main trading partners.

63. The representative of Tunisia considered that Morocco's promising efforts should lead to Morocco's greater integration into the world economic system. Major trading partners should show greater understanding towards the measures still in place, which were necessary to ensure a balance between austerity and social stability. He added that the Maghreb Union was intended to contribute to economic growth and world trade.

64. The representative of Egypt identified his own country's economic situation with that of Morocco: trade liberalization and a declining rôle for the public sector; the EEC accounting for more than half of trade; a merchandise trade deficit; and the importance of private transfers in the balance of payments. Individual countries' liberalization efforts were noteworthy, but the achievement of development goals rested on the improvement of the international environment. In this respect, two areas of importance to both Egypt and Morocco in the Uruguay Round were the inclusion of labour remittances to the negotiations on services and, as net importers of agricultural products, success in the negotiations on agriculture.

65. The representative of Czechoslovakia emphasized that Morocco's recent dialogue with countries of Eastern and Central Europe was greatly appreciated. He hoped that Morocco's courageous trade policy would be a good example for other countries.

66. The representative of Jamaica said that certain aspects of Morocco's economic situation, such as heavy indebtedness, net outflow of resources and problems in external markets including restraints on major exports, were very similar to his own country's problems and to those of many developing countries. Morocco had responded to internal and external difficulties by pursuing trade liberalization. It provided an example both for developing and for major trading countries. It was unjustifiable that, at a time of expansion of trade, developing countries which were attempting to liberalize should be faced with barriers in export markets.

VI. RESPONSES BY THE REPRESENTATIVE OF MOROCCO

67. The representative of Morocco thanked the contracting parties for the interest they had shown in the efforts undertaken by Morocco within the context of the structural adjustment programme as well as the complex situation Morocco continued to face. In his opinion, contrary to what some members had suggested, the process of liberalization had not slowed; rather, remaining measures were becoming ever more transparent. Customs duties were a vital source of public revenue and a means of financing the budget deficit and servicing the debt. Privatization of some 70 state enterprises had been legislated and liberalization of capital markets was proceeding. By 1992, all quantitative import restrictions on agricultural products would be eliminated, while changes to the licensing régime for industrial products would depend on negotiations with international institutions concerning levels of effective protection.

68. Responding to specific questions, he first addressed the question of technical standards. Standards on seeds for sowing were applied to safeguard Morocco's ecosystem. In general, standards on local production were more rigorous than on foreign goods. Information on all technical regulations was regularly made available to the public.

69. Indicative reference prices on some imported goods had been adopted to gain private sector support for reductions in tariffs. They could not be raised and would therefore eventually lose their effectiveness. They could be seen as a substitute for an anti-dumping policy, whereby local industry could be protected from unfairly priced imports.

70. Regarding State monopolies, whereas private companies were in fact the buyers of grain imports, public intervention was necessary to secure the best price as the government continued to subsidize consumption of food staples. The phosphate export monopoly was fully in conformity with Article XVII and would be duly notified.

71. The forthcoming trade law, which clearly incorporated the GATT spirit, would be notified to the CONTRACTING PARTIES once it had been ratified by Parliament.

72. The fiscal levy was needed to provide public funds in order to service external debt and finance growth through investment.

73. While a legal framework existed for export subsidies, budget constraints made them non-existent. Tax incentives, which served merely to increase the rate of return on capital, were accorded to export, tourism and mining industries. The preferential interest rate on export credits was, in fact, in real terms higher than those offered abroad for the financing of various capital goods imports.

74. As to government procurement, the representative of Morocco acknowledged that a 10 per cent preference margin was made available to domestic enterprises; furthermore, as most governments were aware, given

the complexity of contract bidding it was not always easy to ensure fair access to all foreign contractors.

75. With regard to agricultural policy, variable levies were justified given the present situation in international markets and particularly so for a country like Morocco, where uncertainty was exacerbated by vulnerability to exchange rate fluctuations. The amount of support provided to the domestic agricultural sector was in fact less than the net financial effect of taxation.

76. Morocco's export diversification policy was based on international competitiveness generated by the structural adjustment programme; the growing share of manufactures in Moroccan exports was testimony of a remarkable performance.

77. With respect to tariff harmonization, the next step after having lowered the tariff ceiling to 45 per cent would be to rationalize or simplify duties in line with the Harmonized System; the long-term plan, once quantitative restrictions had been eliminated, consisted in reducing sectoral distortions and balancing levels of effective protection across sectors.

78. The possibility of increasing tariff bindings would depend on progress in the Uruguay Round as well as on the domestic situation. With respect to adherence to the Tokyo Round Codes, Morocco was still deliberating and would make its decision once the Uruguay Round had been concluded.

79. In conclusion, the representative of Morocco thanked the Chairman and the contracting parties for the interest and support they had expressed. He believed that the tone of the review would serve to strengthen Morocco's commitment to the path they had already chosen and would likewise assist in motivating the private sector in working towards the optimal economic interest.

VII. CONCLUDING REMARKS BY THE CHAIRMAN

80. The aim of the reviews undertaken in the framework of the Trade Policy Review Mechanism is a collective evaluation of the full range of individual contracting parties' trade policies and practices and their impact on the functioning of the multilateral trading system. In these closing remarks, I do not wish to substitute for the appreciation made in the Council of Morocco's trade policies and practices, but rather on my own responsibility to bring out salient points that have been made.

81. The Council noted with appreciation that the Kingdom of Morocco was the first developing country to volunteer to submit its trade policies for review under the Trade Policy Review Mechanism. This indication of a strong commitment to the GATT system was all the more welcome in view of the fact that Morocco had only recently acceded to the GATT.

82. Several members emphasized that Morocco's trade policies had, since 1983, developed in a direction progressively based on the principles of the multilateral trading system. It was also noted that the structural adjustment programme undertaken by Morocco comprised not only trade liberalization but also major reforms in fiscal, monetary and exchange rate policies which had contributed to the greater integration of Morocco into the world economy.

83. While Morocco is a small trading country in global terms, trade is an important and growing element in its economy. In view of its high debt and debt service burden, the link between trade, money, finance and development was particularly important for Morocco. Several members pointed to the importance for Morocco of improved access to export markets together with increased availability of external financing. In this connection, members of the Council noted the vulnerability of Morocco's economy to changes in the external trading environment, given its limited export base and the fact that it is a small supplier in most of its export markets. Reference was made to the existence of trade barriers and other trade-distortive measures in Morocco's export markets for such products as textiles, clothing and agricultural goods. The importance of the Uruguay Round negotiations in these areas was emphasized.

84. Council members welcomed Morocco's extensive liberalization efforts taken in spite of substantial financial difficulties and obstacles to trade in external markets. It was noted that, with the implementation of its structural adjustment programme, Morocco's trade policies and practices had become more transparent; that import prohibitions had been abolished, licensing requirements were being phased out in favour of tariff-based protection and substantial reductions had been made in the levels of tariffs; and that the binding of tariff positions representing 30 per cent of imports was a significant contribution to the stability and predictability of Morocco's trade policy régime. These policies were supported by measures to deregulate and promote increased competition within the domestic economy.

85. At the same time, several members pointed to the existence of relatively high tariffs in a number of sectors and a complex array of other trade measures, including reference prices, State trading in certain basic products, sanitary and health regulations and government procurement practices, which continue to be in place. A number of members expressed their concerns on the incidence and effects of such non-tariff measures, including possible discriminatory aspects, as well as the lack of transparency involved. Questions were also raised about the fiscal levy on imports introduced in 1987, certain tax exemptions as well as export guarantees and the export insurance scheme, which it was suggested could be seen as export subsidies, and the move being considered by Morocco to use variable levies on imports of "sensitive" agricultural products. Some concerns were also expressed about a possible slowing down of Morocco's trade policy reform programme since 1987.

86. Some members stressed the importance of ensuring that Morocco's participation in regional trade agreements did not lead to discrimination and diversion of trade. In this context, Morocco's efforts to diversify its export markets and import sources were appreciated.

87. Replying, the representative of Morocco pointed out the difficulties encountered by a developing country that had been implementing a major programme of trade liberalization at a time of severe structural adjustment problems. He mentioned the linkages between trade and finance, including Morocco's fiscal problems which would constrain the extent and speed of tariff reductions. However, the course of trade liberalization would be sustained.

88. He gave several examples of further steps towards a more liberal trade and investment régime in Morocco. In the area of import licensing, changes since 1983 had been exclusively in the direction of phasing out the measures in place and this trend would continue, in consultation with the domestic industries concerned. Morocco was also continuing its reform of the tariff system, including a further reduction and harmonization of tariff levels as a longer-term goal. The aim was to provide a neutral structure of protection across the board. Increasing the scope of tariff bindings was under consideration. Reform in this area would depend on the results in the Uruguay Round, as would the question of whether Morocco would consider acceding to Tokyo Round Codes.

89. As far as reference prices are concerned, Morocco viewed these as an administratively simple substitute for anti-dumping procedures, given the limited administrative capacities of a developing country and the substantial demands on administration a fully fledged system of anti-dumping procedures requires. With inflation and devaluation of the Moroccan dirham, the reference prices would in practice run down with the passage of time.

90. In the area of agriculture, Morocco was currently dismantling its levels of support to provide support equivalent to a maximum tariff of 45 per cent. Variable levies were necessary because of the vagaries of

international markets for agricultural products. Morocco's agricultural sector continued to be in a fragile condition.

91. The representative of Morocco mentioned that a new foreign trade law was in preparation.

92. Morocco was a participant in a number of preferential agreements. The arrangement with the European Communities was not limited in time and non-reciprocal. All other bilateral agreements concluded by Morocco were fully consistent with the GATT.

93. The fiscal levy had a purely revenue purpose and, in part, was introduced to honour international commitments by Morocco. Negotiations on bound items were underway under Article XXVIII with affected parties. No direct or indirect export subsidies were in place, if only for lack of funds. Preferential credits, which Morocco granted, to a limited extent, for export were higher than the preferential credits Morocco's importers of capital goods were offered.

94. With respect to government procurement practices, the existing national preference margin of 10 per cent was largely theoretical. For lack of financial resources, Morocco's public agencies were dependent on the cheapest sources of supply. Purchasing was therefore made on the basis of multilateral bidding procedures.

95. On the whole, members of the Council commended Morocco for the progress in trade liberalization brought about since the early 1980s. While recognizing the difficult processes of structural adjustment that might be involved, and the contribution that an improved trading environment could make to the success of Morocco's efforts, they encouraged Morocco to proceed with the liberalization of its trade régime, with due consideration to the possibilities of further improving transparency of its policies, reducing tariffs and expanding the scope of tariff bindings.