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Economic Development in Morocco and Tunisia : Reflections from the International Immersion Program Trip

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The challenge of economic development remains a pressing issue in the world – including Morocco and Tunisia. The reason is simple. In the last century, we have seen a handful of countries make the successful transition to join the established economies. The increased wealth brought many improvements to people's lives. Even huge countries like China and India have made tremendous gains. However, that kind of prosperity remains elusive for many parts of the world. The hope is that there is some mixture of institutions or policies that can bring similar results to Northern Africa.

This paper advances a framework that I have previously developed for encouraging economic growth. This framework is built upon encouraging the creation of successful domestic companies. These companies can provide jobs and wealth for the home country by exporting to bigger markets. The government and lawmakers contribute by securing access to new technology and developing specific economic zones to take advantage of information clusters and economies of agglomeration.

My framework argues that there are three broad factors to focus on to drive economic growth: 1) acquiring talented people, 2) empowering talented people, and 3) encouraging talented people to collaborate. These factors are influenced by institutions established in the home countries. Therefore, the hard work comes in implementation. A country will have a unique solution for achieving these goals from policy tools interacting with each country's history, culture, institutions, and politics. Combining the framework and the observations from our trip to Morocco and Tunisia, I discuss policy goals for these countries.

The goal of the framework is to construct an understanding towards policy goals. I do not believe there is a magic recipe of exact programs that can be copy-pasted into every country. Achieving results is much more nuanced. Every country has a unique environment of geography, politics, culture, and existing institutions. Successful policy will have to be calibrated by those familiar with how to operate and get things done in that country. While it may be hard to export exact policies, I do believe there are common endpoints that policymakers should strive towards to unlock economic growth. This framework was created by examining the economic development of many other economies like the United States, China, and Taiwan. [1]

The rest of this paper has the following sections: 1) a brief survey on the theory of economic growth, 2) a summary of my framework, 3) application of the framework and trip observations in examining Morocco and Tunisia, and 4) concluding remarks.

I. Theories on the Causes of Economic Growth

There are three broad categories advanced as the cause of economic growth: institutions, geography, and culture. Institutions are organizations that exert influence on the society. The government, a university, or a company are examples of institutions. The idea of institutions is that economic success is driven by setting the right rules to the game. This is because policies set

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[1] Saxenian, AnnaLee. “Regional Advantage: Culture and Competition in Silicon Valley and Route 128.” Harvard University Press. (1994).
Hwang. V, and Horowitt, G. “The Rainforest: The Secret to Building the Next Silicon Valley.” Regenwald. (2012).

the incentives, which in turn set behavior and norms in the economy. Policymaking therefore becomes relatively simple – advancing a set of policies. These good policies are generally: securing private property rights, impartial enforcement of contracts through an independent judiciary, and transparent financial systems.[2]

Adopting policies that protect property and contracts gives people the ability to make long-term investments. The goal is to encourage trust throughout the economy whether that means trust between the citizen and state or between the customer and the seller. Citizens are more likely to trade and build businesses if their gains are protected.

In response, those who believe geography is the cause argue that while institutions are important, they cannot explain everything.[3] The poorest regions need much more than good governance to turn their fortunes around.[4] A country's geography can have large impacts on economic outcomes. Countries lacking access to ocean ports must have all trade travel by land. This significantly raises transport costs. Trapped in isolation, a country is forced to produce all of its consumption needs. This leads to inefficient allocations of labor and capital while also decreasing gains from specialization. Furthermore, the climate and prevalence of pests and diseases endemic to the country also suppress the population. Taken together, these effects could keep a country in poverty regardless of how good the institutions are without a massive directed intervention.[5]

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[2] Acemoglu, D., Robinson, J. "Why Nations Fail: The Origins of Power, Prosperity, and Poverty". Crown Publishing. (2012).

[3] Sachs, Jeffrey. "Institutions Matter, but Not for Everything." Journal of Finance and Development. (June 2003).

[4] Ibid.

[5] Ibid.

Finally, some advocate culture as the determinant for growth. The argument is that a people's existing culture may either predispose them to or give them an advantage in capitalism. Weber's Protestant work ethic is an example, where the attributes of hard work, discipline, frugality, and the encouragement to gain worldly wealth are presented as reason why the adoption of capitalism started in the Great Britain instead of somewhere else. Chow similarly points to some aspects of Confucian culture like the emphasis on education and hard work that mesh well with the market system.[6]

II. The Framework

Institutional design and manipulation are the policymaker's key tools to developing change. Structuring or modifying institutions is complicated, however, because of the many secondary effects. One action in one direction might have many unintended consequences. The goal of policymakers should then be to create or modify institutions such that they encourage wealth creation.

Wealth creation stems from problem solving. Customers and trade partners pay capital because they are buying a solution to a problem that would be more expensive if they tackled the problem themselves. Problem solving is not trivial. Solving problems involves a complicated process of getting the right people in the right place at the right time to work together. A company is a form organization that organizes people to tackle problems. The goal of policymakers is therefore to find mechanisms to facilitate solving problems. This involves many

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[6] Chow, Gregory. "China's Economic Transformation." Wiley-Blackwell, 2nd Edition. (Feb. 2007).

considerations. At the end of the day it is entirely possible that the best policy is for the government to stay out. However, the government can play a constructive role if they can achieve some specific goals. For example, an institution that attracts capital and encourages long-term investment would be useful. Policies may also want to motivate entrepreneurs with profits and reduce over-restrictive regulations. Providing more access to smart ideas and talented people are also positive objectives.

Each of these contributions is valuable but comes with a price. Acquiring them is costly for private individuals – whether it's getting an education or finding a partner you can trust. Private industry, particularly those in early developmental phases, may not be able to develop mechanisms to deliver these positive characteristics. In certain circumstances the government may be the only institution capable of fulfilling an outcome.

Given these considerations, I assert that economic development is fundamentally about people. It is about gathering people, giving them to tools, and then encouraging them to go out and solve problems. I propose the following framework to think about how to encourage economic growth:

1. Acquiring Talent and Ideas
2. Empower Talent
3. Encouraging that Talent to collaborate.

Imagine each country's economy as a machine that spits out successful companies with a certain probability. Each machine's success rate is determined by the combination of the three categories of acquiring talent, empowering talent, and encouraging talent to collaborate. The goal as a policymaker is to increase the success rate as much as possible. This requires an examination of each individual country to determine if government can tweak some of the categories to increase the success rate. The task then becomes designing policies that can achieve these goals while remaining politically and administratively feasible.

1. Acquiring Talent and Ideas

Each economy should be trying to attract as many talented people as it can. This broadens the pool of talent from which the economy can draw from. On the other side, individuals have options and can choose where they live. It takes more than promises or even cutting checks most of the time to convince people. Individuals take several factors in mind when deciding: career advancement is one criteria for example. Quality of life indicators such as access to healthcare, good schools, public safety, entertainment, freedom of expression, and culture also play a role in the decision. There are also network effects. Certain industries can be clustered in a specific place, therefore anyone who works in that industry will be drawn to that place as well. Silicon Valley is a good example where anyone who wants to create a startup in computing or mobile phone apps will be drawn to Silicon Valley.

Developing and educating a country's local population is another avenue. Investing in public education will increase the quality of ideas and people within the country's ecosystem. There is always the risk that a country will lose people due to emigration. Brain drain is something that many countries are afraid of. However, brain drain is not universally bad, even from the home country's point of view. Suppose, for example, that a citizen in the home country is extremely talented in a field of technology that is very advanced and only a handful of countries have access to it. It makes no sense to either encourage or force that person to stay in the home country. The individual and the country both lose out. The home country does not have a local industry that incorporates this technology. Therefore, the citizen will go into a different job that is inefficient. The country then taxes less and receives worse externalities. It makes more sense to let that person emigrate to the other country. The home government loses out on potential tax revenue but the emphasis should not be in getting specific tax dollars. Instead, securing access to the technology should be the primary consideration. Asking that individual to visit home and give talks or mentor future students from the home country are more valuable than a small sum of tax dollars.

Securing the home country's access to new technologies is vitally important. Within global competition, technology is the primary mechanism in which solutions to problems are created. The only alternative is providing the same solutions for cheaper. That outcome is tough because there are many countries competing so margins will also be small and this method will automatically keep wages and profits low which is the opposite of what the home country wants to achieve. In addition to developing links with expatriates and the diaspora as mentioned above, tt makes sense to cluster companies around premier universities. This eases access to new ideas and methods. Being in geographic proximity may not be enough to collect the benefits. Therefore, developing close lines of communication between universities and industry is important. That way local industry can learn of the newest technology developments while universities learned what industry wants. Silicon Valley is an example of this where industry developed close links with Stanford and UC Berkeley.[7]

2. Empowering the Talent

[7] Saxenian, AnnaLee. "Regional Advantage: Culture and Competition in Silicon Valley and Route 128." Harvard University Press. (1994).

Starting a company is a long-term investment with many risks. People may not be inclined to take on these risks even if the fundamentals of a business has potential. Empowering talent is therefore encouraging people to overcome these hesitations by helping them out or removing their fears. There are two broad categories in which institutions can step in: raising incentives and de-risking. Raising incentives can increase the upside or provide access to more resources. De-risking involves tackling specific kinds of risk. This can be effective since people are generally risk averse. A marginal change in de-risking an aspect of a project can have a bigger impact that raising incentives in a similar magnitude.

An example of increasing incentives can take the form of tax breaks. This enhances a company’s bottom line and the country is happy to grant this incentive in the hopes it can make up the lost revenue from other sources – for example the income taxes of the company’s employees. Removing burdensome regulations and providing key infrastructure like highways and ports are other incentives. These give companies more room to operate or cover costs that companies would otherwise have to devote capital to.

Starting a company has multiple dimensions of risk. An individual type of risk can be enough to dissuade many participants from trying. Policymakers could potentially make a difference by spreading, soaking up, or removing some of these risks. Placing mechanisms that remove these risks is one basic step. Another vital building block is for a government to provide stability. Companies and individuals can make long-term investments when destructive wars, political unrest, and monetary crises are unlikely. Another type of risk is legal risk. Sometimes it may be prudent to limit liability to encourage development of a certain technology or industry.

Technical risk, or the risk that a technology can achieve the use the company wants, is also another area where institutions can make a difference. Universities can sometimes play the role of eating technical risk because they back researchers to try new ideas without needing to please shareholders. Governments can also play a role. In Taiwan, the central government backed basic semiconductor research and made those resulting discoveries available to all industry participants. Doing so yielded multiple benefits. It eliminated wasteful spending situation where multiple startups conduct the same research. Furthermore, each of the market participants did waste resources trying to develop around each other's patents. This allows all players to focus research on the next stage of technological development. In the United States, there is a similar solution. The government will sometimes allow companies to come together to create patent pools, where a company can purchase the license for many patents necessarily for a complicated technology for a set price.

3. Encouraging that Talent to collaborate

Encouraging talent to collaborate is maximizing a country's economic potential. If every participant inside a country is isolated from everyone else, then many gains are lost. The acquisition and empowering of talent is in the hopes that groups will form and start solving problems together. No individual person can handle everything by themselves, no matter how talented they are. However, interaction and collaboration are costly. Therefore, both private and public institutions can bring groups together successfully. Silicon Valley had a large mix of actors such as the trade associations, venture capitalists, and lawyers who connected and brought disparate parties together.[8]

III. Application

[8] Ibid.

Turning briefly to the countries that did successfully develop, there are some broad commonalities to note. First, local industry found a way to serve large markets. For countries like the United States or China, they can turn to their own populations or each other. Smaller countries like South Korea or Singapore found ways to connect to larger overseas markets. Second, access to technology is vital to pushing economic growth. The United States can rely on its vast university system to generate all kinds of new ideas and technologies. Europe is in a similar situation. East Asia initially sent its best students abroad to learn and then gained access to the technology later on. Finally, the power of economies of agglomeration and information clustering are important. Silicon Valley, Taiwan's Hsinchu Technology Park, or China's special economic zones are examples where institutions set up specific areas to encourage the creation of successful companies.

Both Morocco and Tunisia have valuable geographic positions. They both sit on the North Africa coast in between Africa and Europe. Europe and North Africa have significant populations and therefore large market potential although Europe has much higher spending capacity. From a strategic point of view, the following may be a way forward. Initially, local companies will have to try to interconnect and then compete in Europe. Those gains can then be allocated towards technological innovation – the so called climbing of the technology ladder where a country starts off exporting low technology goods but moving upwards as the population gets more skills and advances. This process will also develop the local domestic consumption market as they become wealthier, which means North Africa as a whole becomes wealthier and wants to spend more. This then creates another market and one that is much more advantageous to both Morocco and Tunisia. Europe may make it difficult to extract many gains from international trade since they would view either Morocco or Tunisia as an outsider with much less leverage than the European Union.

1. Morocco

During our visit, the group met with economics experts at the Mohammed V University. The experts highlighted parts of Morocco's economic development plan. The first prong was an emphasis on vocational training across the country to build up a skilled workforce as well as programs for increasing years of education. The current average amount of education is five years in some regions. The second prong involved trying to get favorable trade terms with the European Union and other trading blocs in Africa. Morocco is in a unique position where it considers itself European, African, and Middle Eastern all at once and is not a member of a bloc. They also mentioned a previous attempt to set up a grant program to provide seed money for entrepreneurs. In the end, the program was not successful.

I think the second prong may be difficult to obtain. While Morocco is indeed in this unique position, by not joining a specific bloc, it runs the risk of being isolated. Without a strong bloc behind it, it may lose a lot of leverage when negotiating with the European Union or other regional blocs. This may change as the Chinese increase expansion of the Belt and Road Initiative. Europe may be alarmed by various perceived defections as countries sign agreements with the Chinese and may be induced to offer better terms to entice Morocco to cooperate.

When applying the framework, it appears that Morocco may has recognized a need to improve the first prong: increasing its access to talent and ideas. The overall education improvement plan and vocational training ambitions make sense. This provides a capable workforce that would entice both local entrepreneurs and foreign investment. Securing access to advanced technology may still be a challenge however Morocco has a large diaspora, especially in Europe. Reaching out towards those in high tech industries, business management, or other advanced fields in Europe and encouraging interaction with local companies in Morocco has the potential to be useful. Their experiences at the top levels in Europe is extremely important in acquiring the knowhow and connections to help local Moroccan companies export. Taiwan was able to utilize such linkages to boost its technological advancement (although matched with other factors like government commitment towards developing a specific high technology export industry).[9]

Even though Morocco's initial plan to provide seed money for startups did not work, that does not mean the program as a whole is wrong. There may be other parts of the framework that prevented the program from taking off. Seed money is just one aspect or risk as it is covered in the framework. One possibility is instead of the government offering seed money to startups to have the government back some of the loans given to companies at the growth stage. The United States had some flavor of this during the expansion of the electricity infrastructure when the federal government backed loans. This might tip some foreign investors in and eventually build the trust needed for these investors to become repeat players. Perhaps there is legal or political risk that the government can also address.

Although things are still in the early stages and people generally may not be open to starting their own companies, I believe it is still vital to begin building the foundation for making it a part of business life. If, for example, the vocational training program does work out, then there will be a large supply of skilled workers. It then becomes imperative that there are enough

[9] Saxenian, Annalee. "The Silicon Valley Connection: Transnational Networks and Regional Development in Taiwan, China, and India." Science, Technology, and Society. (2002).
Wong, Bernard. "The Chinese in Silicon Valley: Globalization, Social Networks, and Ethnic Identity." Rowman and Littlefield Publishers, Inc. (2006).

businesses with enough capacity to employ them. Otherwise, these workers will have trained for nothing or will seek employment as skilled laborers abroad. Whether it is the United States, Europe, Singapore, China, South Korea, or Taiwan, the home country's companies are vital to the economic health of the respective companies is vital.

Finally, encouraging interaction between the various stakeholders in the Moroccan economy is important. The government may not be the institution to do this but cultivating a network of information sharing whether that be technology or best practices will maximize the gains available to local Moroccan companies. This also includes focusing on expanding opportunity to a wider part of the population. The more participants there are, the better.

2. Tunisia

Tunisia stands in a unique position since the Arab Spring. The current democracy faces a number challenges and multiple parties have pointed to the lack of political stability as a major issue for economic development. This intuitively makes sense as investors of all kinds can become nervous in the face of political instability. The Tunisian experts also pointed to brain drain as a concern. The biggest issue our group came across during our visit was a disagreement over the main barrier to economic growth. There was an even split between the political parties we spoke to. Half argued that the richest families at the top controlled the key businesses and blocked access to genuine competition. The narrative is that by keeping themselves entrenched, they prevent the country's economy from developing further. The other half placed the blame on the labor unions for being too disruptive and driving away potential investors.

The experts we spoke to also informed us that the government is also facing problems in funding. Most revenue for the government is collected by value added taxes and import taxes. This is different from the United States where income and property taxes are the primary vehicles for government revenue. This places a limit on what the government can do from fiscal constraints. A large infrastructure plan or grand development plan typically found in East Asia would likely not be feasible.

However, our Tunisian hosts also reported some strengths. Tunisia has a strong educational system, especially when compared to the rest of Africa. Tunisian universities take in many students from abroad, an indicator of the educational system's quality. They also highlighted Tunisia's geographic location and expressed the hope is that Tunisia can stand out as the regional leader to bridge Europe with all of Maghreb.

Everyone agrees on the first parts of the solution. Political stability is recognized by everyone as the fundamental piece needed to encourage investment. From that point the ideas diverge. Those who think that the richest families stand in the way argue for ways of dismantling the perceived power structure – from enforcement of anticorruption measures to the possibility of asset seizure. Those who believe the unions are the problem argue for policies that clamp down on unions.

My read of the situation is that it is actually two equally important issues that need to be addressed. Within the framework, minimizing the disruption of the unions is important, especially as the need for stability is evident. This is a key component of the de-risking, which is a part of the second prong of the framework. The United States, Taiwan, Singapore, and many other places enacted policies that weakened labor unions. Each place has done it in different ways. For example, Singapore reached a tripartism structure where the unions, the government, and business leaders tried to establish consensus instead of establishing an adversarial system.[10] Furthermore, Singapore also coupled their policies with massive amounts of public housing.

[10] https://www.tripartism.sg/page/Tripartism-in-Singapore/

Workers could then have a route to buy in to the existing arrangement with one of the biggest concerns dealt with. The solution is far from perfect but it demonstrates that there are ways to reached a delicate balance between ensuring stability while also getting support from workers, who also need some motivation to deliver high performance.

On the other side, it is important to give everyone assurances that there are equal opportunities to advance in society. This is a key consideration in retaining talent. If the various talented people in a country believe the economy is beholden to a few families, they are much more inclined to leave. There will always be income inequality. Furthermore, the possibility of riches stands as a powerful incentive. However, in order to retain talent, the economy needs to signal that anyone who is smart and works hard can become successful. Implementation of policy here requires an examination of the existing market structure to see if there are any natural monopolies for example. The United States has specific regulation for some of these industries like electricity transmission, telecoms, internet, or natural gas pipelines. They allow private companies ownership but regulate many aspects, including price caps in some situations. It also requires a careful look to prevent political capture, where an incumbent company will try to use the law to defend itself from competitors. In both cases, someone who is much more familiar with the institutions and intricacies of the Tunisian economy is required make the determination of whether the government needs to intervene.

IV. Conclusion

My proposed framework is designed to guide discussion around certain policy goals. These include reaching out towards increased international commerce and the development of local companies. To reach that end, each country needs to empower its own people by providing them access to ideas, giving them tools, removing certain risks, and encouraging them to collaborate with each other and the outside world. Institutions should be designed and tweaked to encourage these outcomes. However, I am ill-suited to make specific policy prescriptions. A deep understanding of the history, economics, culture, politics, and law of each of these countries is necessary to find the right set of tools for each country at this specific point in time. However, I remain hopeful that these countries do figure it out. During my visit to these countries, I came away with the fundamental belief that both Morocco and Tunisia have the capacity to develop economically. The opportunity is quite large in my opinion as the populations in the region grow. If they become wealthier, it will improve many lives and enrich the rest of the world too.