Toward Understanding Financial Diplomacy: The Case of Morocco

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Abstract:
Due to an economic context characterized by globalization, marked by fierce competition and by the opening of markets at the international level, several opportunities and large-scale challenges arise because of this new international context. This set of circumstances has drawn increasing attention to the role of financial diplomacy in promoting savings. Generally confused with economic diplomacy, financial diplomacy represents a particular aspect of diplomacy, however it remains very little treated in research works.
Aware of the importance of financial diplomacy in the insertion of its financial system at the level of international finance, Morocco has deployed remarkable efforts in this direction. Indeed, the interest given to financial diplomacy by Morocco is not new, it dates back to its independence.
The structural adjustment program initiated in Morocco in 1983; was the beginning of strengthening the assistance and support relations of the IMF and the World Bank. These relations explain Morocco's interest in its financial diplomacy.
Due to the lack of research work dealing with this issue, this article attempts to answer the following question: What are the illustrations and actors of financial diplomacy in Morocco to ensure its insertion in the international economy?
To answer this question, this article examines the importance of Morocco's financial diplomacy in international financial relations, through an identification of diplomatic actors as well as its contribution to Morocco's debt situation.

Keywords: Financial Diplomacy - International Monetary Fund - World Bank
Classification JEL: F00, G00, F65
Paper type: Theoretical Research
1. Introduction:

Financial diplomacy is characterized by the effective management of financial relations at the international level through which states manage their foreign relations and make decisions. It represents a subset of economic diplomacy, which has progressed more slowly (Bayne, 2008).

Indeed, financial diplomacy employs several actors whose objective is to carry out the negotiation and decision-making process, serving to improve the financial system and develop its insertion in international finance. The International Monetary Fund and the World Bank represent the most dominant and influential institutions in the search to achieve financial diplomacy thanks to their missions of orientation and good economic and financial governance.

The latest financial crisis prompted the developed countries of the Group of Seven (G7) to approach the IMF to encourage it to implement rescue plans linked to policy reforms. Financial crises have followed one another, especially in Asia, starting with the crisis in Thailand in 1997, in Indonesia and in South Korea, which have spread internationally. The Group of Seven (G7) countries then worked for the “new international financial architecture” to be adopted by the IMF and the World Bank to prevent the recurrence of similar problems. (Bayne, 2008)

Thus, the IMF and the World Bank have provided financial support through structural reforms aimed at remedying the weaknesses of the financial sector, as well as adjustment programs aimed at addressing financial imbalances.

For its part, Morocco is increasingly interested in the importance of financial diplomacy and its crucial role in contributing to its integration into the international economy. The importance that has emerged since its independence, and more precisely during its debt crisis.

Morocco intensified its cooperative relationship with the IMF during the period from 1983 to 1993, a period during which Morocco was obliged to adopt IMF-supported stabilization strategies to take advantage of external debt rescheduling, which weighed heavily on the growth of the Moroccan economy and constituted a handicap to its development.

The Moroccan authorities have shown great flexibility about the economic guidelines drawn up by the IMF even beyond the period of structural adjustment which ended in 1993; the recommendations and support of the IMF and the World Bank have continued to be listened to
by the Kingdom, their assessments have become a sign of a healthy Moroccan financial sector. This article discusses Morocco's financial diplomacy since the reforms related to its debt situation as well as its contribution to improving the Moroccan economic situation thanks to the various actors who ensure that the objectives sought by financial diplomacy are achieved. Following this introduction, the second section discusses the conceptual framework of economic and financial diplomacy. The third section will discuss financial diplomacy in Morocco and its contribution to economic development. Finally, a general conclusion to this contribution.

2. Conceptual framework of economic and financial diplomacy:

Financial diplomacy cannot be dissociated from economic diplomacy; it is in fact a subset of the latter (Bayne, 2008). It is in this vision that we thought it appropriate to present the conceptual framework of economic diplomacy to better understand that of financial diplomacy. According to Bull (1995), diplomacy is "the conduct of relations between states and other entities in world politics by official agents and by peaceful means". Indeed, diplomacy is not limited to a precise discipline, it intervenes in several fields, this is how it is defined by Barston (2006) who considers that "diplomacy is concerned with the management of relations between states and other actors". Among other things, economic diplomacy requires special attention from states because it plays a crucial role in the management of international economic relations and makes it possible to conclude agreements as well as negotiations aimed at improving growth and promoting the economy. In their work, Bayne and Woolcock (2007) present economic diplomacy as "decision-making and negotiation in international relations". Economic diplomacy is linked to the objectives it achieves insofar as the purpose of any negotiation should present a gain to economic development. Rana (2007) explains economic diplomacy as being "the process by which countries attack the world external, to maximize their national gain in all areas of activity, including trade, investment and other forms of economically beneficial exchanges, that provide a comparative advantage, comprising bilateral, regional and multilateral dimensions, each of which is important".
Economic and financial decisions taken on an international scale require a rather complex and fearful approach. Yet economic diplomacy facilitates the negotiation process through several actors and organizations. As Berridge and James (2003) point out, "economic diplomacy is concerned with economic policy issues, including the work of delegations to conferences sponsored by organizations such as the WTO, and includes diplomacy that employs economic relations either as rewards or as penalties, in pursuit of a particular foreign policy objective."

In the same area of reflection, financial diplomacy, as we have mentioned, is an influential and strongly present part of international financial relations.

In the context of financial globalization, we hear more and more about these financial relations controlled by financial diplomacy which aims, through the attempts of governments, to establish stability in the absence of an international commercial regulatory framework.

To better understand international economic and financial relations, it is necessary to clarify the role of non-ordinary diplomatic actors such as ministries of finance, central banks, companies, the banking sector as well as diplomatic forums such as the World Economic Forum.

The Group of Seven (G7), Group of Eight (G8), and the IMF and World Bank have a significant amount of influence, as they represent mechanisms linked to governments. This impact is part of a perspective of supporting an approach centered on the state of financial diplomacy. (Budd 2003; Wicks 2007).

The studies that have dealt with financial diplomacy have focused mainly on its inability to decline the financial crises of the last decades.

On the other hand, following the examination of the reports of the IMF and the World Bank, it is to be noted that these studies concern only the economic and financial consequences of the negotiations while they omit to specify the diplomatic steps allowing the completion of these negotiations (Lee, Donna and Hocking 2010: 18).

We define financial diplomacy as a set of policies of negotiation, partnership or cooperation concerning state-state or state-international organization financial relations. Such as financial aid, donations or state debt strategies.
3. Financial diplomacy in Morocco and its contribution to economic development:

Aware of the importance of economic and financial liberalism, Morocco since its independence has encouraged freedom of enterprise and free trade. Moroccan economic relations are characterized by a high degree of openness to the outside world. Since the 1980s, Morocco has opted for an opening of financial exchanges aimed at increasing its financial sector and consequently developing its economy, which experienced several problems during this period. Indeed, the Kingdom's international financial relations have allowed it a solid insertion in the world economy, which, on the one hand, has improved its financial system through the expansion of investments and the strengthening of financial exchanges, but on the other hand, this insertion has contributed to the propagation of global financial failures.

3.1. The actors of Moroccan diplomacy:

Morocco has made efforts to strengthen its financial diplomacy through several actors and through an adequate diplomatic network which is defined by the Ministry of Foreign Affairs and International Cooperation as follows:

“The Ministry of Foreign Affairs and Cooperation has several representations abroad, namely diplomatic missions (Embassies and Permanent Missions) and consular posts.

The Embassies, whose number today reaches 91 representations around the world, have as missions to maintain the relations of Morocco on the diplomatic and political level and to promote the economic, cultural, and scientific relations with the countries of accreditation.

The Consulates General, numbering 53 plus one branch, have, for their part, the mission of ensuring the protection of the interests of Morocco as well as those of Moroccans residing abroad, and of providing consular services, in particular, the CNIE, passports, civil status booklets, adoulaire acts, as well as visas and appropriate documents for the benefit of persons wishing to travel to Morocco.

In addition, the Consulates General work, within their respective consular districts, to strengthen and promote the Kingdom's economic and commercial relations.

The Permanent Missions, for their part, play the role of Morocco's interlocutor with international organizations. These are missions to the

3.2. Illustrations of Morocco's financial diplomacy:

Morocco's financial diplomacy originated after independence following various successive reforms to deal with the intensification of Morocco's indebtedness between 1983 and 1993. We will detail the illustrations of Morocco's financial diplomacy as follows:

3.2.1. The intervention of the International Monetary Fund: The structural adjustment plans: 1983-1993

Indeed, Morocco's financial diplomacy is mainly reflected in its cooperative relations with international institutions, for example, the International Monetary Fund and the World Bank. Links that have intensified following the reforms that we will deal with in three phases:

➢ Pre-adjustment phase: 1972-1982

Economic growth, recorded between 1972 and 1982, was slightly lower with an average annual growth rate of 4.9 (HCP, 2005).

The increase in the price of phosphate from 1973 to 1974 generated a positive effect on external financing in 1975, as well as the investment rate, which rose considerably, did not have a significant effect on economic growth. The doubling of the investment rate did not have a favorable impact on growth during this period.

Indeed, between 1975 and 1978, the price of phosphates fell dramatically, followed by years of drought (1975, 1977, 1979, 1981), which led to disruptions in public finances and external accounts. This situation increased the external debt to finance development projects.

To increase investment and accelerate economic growth, Morocco adopted the five-year plan from 1973 to 1977, a goal that was not achieved because of the collapse of phosphate prices in 1976.

To remedy this situation, Morocco entered into the program of a three-year plan from 1978 to 1980, “whose primary objective was to restore budgetary and financial balance. Apart from a reduction in total public expenditure from 40% in 1977 to 30.6% in 1980, this program did not achieve the expected results due to an unfavorable international situation marked in particular by the second oil crisis in 1979, and by an increase in foreign interest rates that aggravated the burden of the foreign debt”.

(Baraka and Benrida, 2006: 310)
➢ **Adjustment phase: 1983-1993**

In the early 1980s, Morocco experienced a serious deterioration in its financial situation, with an external debt increasing more than six-fold between 1975 and 1982.

To remedy this situation, Morocco was required to subscribe to stabilization programs supported by the IMF and the World Bank to reduce its debts. This period allowed Morocco to enter into a structural adjustment phase (SAP) through the confirmation of six agreements.

World Bank support for structural reforms through sectoral adjustment loans and structural adjustment loans have enabled the introduction of deep reforms, particularly in the areas of taxation, foreign trade, rationalization of the public sector, and the financial market.

According to the Ministry of Economy and Finance, Department of Studies and Forecasts, the results of the structural adjustment program are as follow:

Firstly, the growth rate recorded by the Moroccan economy during the period 1983-1994 averaged 4.1 percent per year. However, this growth, which was significant during a period of structural adjustment, was not able to cope with a sharply increasing active population, which led to an aggravation of unemployment.

Secondly, the substantial reduction in the public deficit as a percentage of GDP: from 15% in 1982 and 10.1% in 1983, this deficit was reduced to 2% in 1992. It rose to 2.4% in 1993 and 3.1% in 1994.

In addition, the current account deficit of the balance of payments, which was 12.3% of GDP in 1982, was sharply recovered in 1983 (6.5% of GDP) thanks to the halt in imports and the restrictive measures taken in 1983 in the area of foreign trade. It stood at 0.8% in 1990 and 2% in 1993.

Furthermore, the implementation of the structural adjustment program made it possible to reduce the ratio of external debt to GDP from 128% in 1985 to nearly 70% in 1994 and to keep debt service about exports of goods and services below 36%.

Finally, the structural adjustment plan reduced the public deficit and the current account deficit of the balance of payments. However, the debt problem persisted.

➢ **Post adjustment phase: 1994-2004**

Following the various reforms implemented during the SAP aimed at increasing the Moroccan economy as well as the shortcomings of the objectives achieved, Morocco has embarked on the second generation of reforms in cooperation with international institutions.
External debt rescheduling strategy:
Morocco's financial diplomacy enabled it to adopt, through the structural adjustment program, a strategy of rescheduling its external debt between 1983 and 1993. This strategy was a response to the alarming situation that was characterized by imbalances in the domestic and external accounts. Thanks to the support of the IMF, Morocco signed in 1983-1993, nine agreements to reschedule its debt in order to relieve the threat of indebtedness during this period.

Evolution of the total external debt (1975-1997)

<table>
<thead>
<tr>
<th>Year</th>
<th>Debt in millions $</th>
<th>% GNP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>2353</td>
<td>26.2%</td>
</tr>
<tr>
<td>1980</td>
<td>9710</td>
<td>53.3%</td>
</tr>
<tr>
<td>1985</td>
<td>15753</td>
<td>122.4%</td>
</tr>
<tr>
<td>1987</td>
<td>19800</td>
<td>128%</td>
</tr>
<tr>
<td>1990</td>
<td>23524</td>
<td>97.1%</td>
</tr>
<tr>
<td>1991</td>
<td>21267</td>
<td>80%</td>
</tr>
<tr>
<td>1992</td>
<td>21305</td>
<td>71.2%</td>
</tr>
<tr>
<td>1993</td>
<td>20783</td>
<td>57.8%</td>
</tr>
<tr>
<td>1994</td>
<td>21712</td>
<td>48.8%</td>
</tr>
<tr>
<td>1995</td>
<td>23006</td>
<td>69.9%</td>
</tr>
<tr>
<td>1996</td>
<td>21168</td>
<td>59.1%</td>
</tr>
<tr>
<td>1997</td>
<td>18983</td>
<td>58.3%</td>
</tr>
</tbody>
</table>

Source: (Ferguene & Mohssine-Abdali, 2003)

Since 1993 and after 10 years of reforms through the structural adjustment program (1983-1993) and the rescheduling of the external debt, the external debt situation in Morocco has not recovered, as it has stabilized at around $20 million; going from $20 million in 1993 to around $19 million in 1997, thus representing a non-negligible share of GNP exceeding 50%.

3.2.2. Active management of external debt: Conversion of debt into investment
Morocco's financial diplomacy has resulted in the establishment of an external debt management mechanism through the conversion of its debts into investments. Indeed, we found that at this stage, Morocco was obliged to act in the face of the debt crisis through active management of the external debt adopted by the Treasury and External Finance Department (TEFD), in 1996, the year of the start of this mechanism, several agreements of conversion of debts into investments have been concluded. To alleviate the excessive weight of the Moroccan debt, among these agreements, we are going to cite by way of illustration, the agreement concluded with France being the subject of conversion into the investment of the debts in 1996 of an amount of 1 billion F divided under two tranches:
« - a debt remission of 400 million F in exchange for Morocco's commitment to invest an equivalent amount in the development of the Rif regions, to fight against the development of a drug economy, based on the cultivation of cannabis, in this area;
- a reduction of 600 million F representing a conversion of receivables into investment for projects of French companies, in particular within the context of privatizations.» (Rapport n° 319, 1996/1997)
This mechanism aims to mitigate the external debt and encourage foreign investment in multiple areas.
The Franco-Moroccan agreement has allowed the introduction of several other agreements in the same perspective, namely the agreement with Spain and with Italy.

3.2.3. Precautionary credit lines by the IMF:
Since 2011, the IMF has established the Precautionary and Liquidity Line (PLL) to «provide financing to meet the actual or potential balance of payments needs of countries with sound economic policies; it is designed to serve as insurance or to help resolve crises in a wide range of situation» (IMF, 2016).

A precautionary and liquidity line of $6.2 billion was provided to Morocco in 2012 to protect against potential uncertainties as well as to promote its economy. (IMF Survey, 2012).
While the LPL is an insurance instrument for Morocco to ensure its stability, it is a testament to its sound economic policies.
Thus, Christine Lagarde, IMF Managing Director, praised the structural reforms undertaken by Morocco, she announced: «Morocco has intelligently exploited the philosophy of the credit line and financial protection of 6.2 billion dollars made available by the IMF.» (Alaoui, 2014).

3.2.4. Accession of Morocco to the GATT then WTO:
Morocco joined the GATT in 1987 and became a member of the WTO on January 1, 1995.
In doing so, it grants most-favored-nation (MFN) treatment to all its trading partners and participates actively in the various WTO forums and rounds of negotiations. Morocco has reiterated its commitment to the multilateral trading system as beneficial to growth, development and welfare.
However, he has always argued that the benefits of multilateralism should be shared equitably among all countries and that special and differential treatment should be a fundamental component of the negotiations.

➢ **Morocco’s behavior vis-à-vis the financial negotiation services of the WTO/(GATT):**

Morocco has engaged seriously as expected in the multilateral trade in goods and services agreements while creating new dimensions aimed at aligning national legislation with the various foundations of the WTO. In 1997, Morocco reformed its legislation to protect the agricultural sector with tariff equivalents and safeguard measures. In the same perspective, Morocco proceeded to the incorporation of the import tax levy in the import duty, the binding of tariff lines, the reduction of bound tariffs and the tariffication of quantitative restrictions on agricultural products.

The agricultural negotiations were incorporated in 2001, during the fourth WTO ministerial conference in Doha. As a result, Morocco has made the tariff reductions for agricultural products provided for in the agreements (2.4% per year), it acts assiduously on notifications relating to export subsidies, internal support, special safeguards measures and tariff quotas. Since the implementation of the WTO agreement, the textile sector has undergone a gradual liberalization through the four integration phases of 16%, 17%, 18% and 49%, which are based on the adaptation of trade in textile and clothing products to WTO principles.

The telecommunications sector has been liberalized through the Moroccan financial system which has innovated its stock exchange legislation and adopted a new banking law and a new insurance code. Morocco has actively deployed its efforts to reform the legal and institutional framework for intellectual property protection. (DFSF, 2008)

**3.2.5. Free trade agreements:**

Opening up to the outside world has always been a strategic choice for Morocco, deemed necessary to boost its growth and benefit from the contributions of foreign investment in terms of technology transfers and know-how, management skills, organization and job creation. This choice has been crowned by the signing of a range of bilateral or multilateral agreements that give the right to tariff reductions or that advocate preferential trade arrangements. These agreements are part of Morocco's efforts to strengthen its anchoring in a regional and international environment undergoing profound changes.
In addition to joining the WTO in January 1995, Morocco has concluded free trade agreements (FTAs) with the European Union (1996), the Arab Free Trade Area (1998), EFTA (2000), the Agadir Agreement (2001), Turkey (2004), and the United States (2005). Other agreements with Arab and African countries have also been signed in the context of strengthening cooperation with the countries of the South (Ministry of Foreign Trad).

3.2.6. Projects financed by the Islamic Development Bank and the African Development Bank:

Since its creation, the Islamic Development Bank (IDB) has financed several projects in Morocco for a total of 6.7 billion dollars according to Al Hajjar, IDB president. The memoranda of understanding concluded between Morocco and the IDB, as well as the IDB-financed projects that are in progress, demonstrate the strategic relationship between the bank and the kingdom. Its ambitions to expand its investments have enabled the IDB to finance projects in Morocco to create employment opportunities and contribute to the improvement of the population's living standards.

In this regard, Bandar Al Hajjar, President of the IDB, praised "the policies and strategies undertaken by the Kingdom, especially in the field of renewable energy, stating in this regard that the IDB supervises, alongside Morocco, a program on the transfer of Moroccan experience in the field of renewable energy and rural electrification to African countries.

On the other hand, in 1978, the first project financed in Morocco by the African Development Bank Morocco concerned drinking water and sanitation.

Until the end of 2017, the Bank has approved more than 160 operations for a total of 10 billion USD, with the objective of improving the quality of life in Africa, the Bank maintains its support to Morocco.

As of September 2017, the Bank's active portfolio includes 31 programs and projects, representing nearly USD 2.8 billion in commitments distributed in agriculture (11%); transport (22.4%), energy (33.8%), water and sanitation (15.9%); social development (5.4%); and other multi-sector operations (11.6%) sectors.

The ADB plays an important role in supporting the financing of projects (NOOR solar complex, Nador West Med port). Indeed, this financial support is part of a perspective of fighting unemployment through job creation and encouraging self-entrepreneurship.
Indeed, the ADB encourages industrialization in Morocco through the Support Program for the Acceleration of Industrialization of Morocco, which will allow the Kingdom to strengthen its insertion in the value chains at the international level and to improve infrastructure services, rural road construction and electrification. The ADB's mission is to develop the financial system through policies aimed at modernizing the national economy.

4. Conclusion:

After studying the various illustrations of financial diplomacy and their contributions to alleviating the alarming situation from which Morocco suffered, it should be noted that the Moroccan authorities have shown flexibility vis-à-vis the interventions of the IMF and the World Bank, the latter playing a primordial role in the orientation of Morocco's financial policy, which is attentive to the recommendations even beyond the adjustment plans.

The Moroccan financial system demonstrates effective financial diplomacy that could play a major role in preventing and mitigating the adverse effects of debt crises and in the development of the Moroccan economy.

However, the interventions of the IMF and the World Bank during the period under study also revealed limitations at the economic level, because despite the favorable results achieved by the Moroccan economy during the ten years of structural adjustment, the latter did not achieve its growth and employment objectives.

This reflection explains the importance given by most of the studies that have dealt with financial diplomacy, which have exposed its inability to deal with financial crises and imbalances.
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