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Business–Government Relations and Industrial Change: The Politics of Upgrading in Morocco and Tunisia

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Summary. — Processes of upgrading and the promotion of industrial "clusters," which encompass multiple policies, institutions, and actors, necessarily vary from place to place. Based on the evidence from Morocco and Tunisia, this article contends that different patterns of business–government relations facilitate different elements of industrial upgrading and cluster promotion. State-dominated political economies may be more amenable to implementing macroeconomic and infrastructure-related measures, which are critical in the initial stages of upgrading. Political economies with more organized business communities may be better equipped to pursue the kinds of inter-firm linkages traditionally associated with later phases of upgrading, when the focus is on boosting innovation.

Key words — industrial upgrading, industrial clusters, business–government relations, North Africa/middle East, Morocco, Tunisia

1. INTRODUCTION

In the past two decades, Tunisia and Morocco have carved out important niches in the global apparel supply chain. In 1981, Tunisia was the ninth largest apparel exporter to the European Union (EU), and Morocco did not even rank in the top 20. In 1998, Tunisia ranked fourth and Morocco fifth in the list of top apparel exporters to the European Union, the world's largest importer of both textiles and apparel (Gibbon, 2000). By 2004, exports of textile and apparel products from Tunisia and Morocco constituted 5.1% and 4.8%, respectively, of the European Union's total imports (World Bank, 2006b). In response to rising global competition, policy makers and industrialists in the two countries increasingly emphasized the need for industrial upgrading in the mid-1990s—a goal that has only intensified since the dismantling of the Multi-Fiber Accords in January 2005 [1]—and at least rhetorically committed to promoting industrial clusters as a means of upgrading. This article explores the process of upgrading through clustering in the Moroccan and Tunisian apparel sectors.

I make two sets of claims: First, different patterns of business–government relations are amenable to different kinds of industrial upgrading policies and strategies. Second, state initiative and support is critical for promoting upgrading and industrial clusters—especially in the initial stages of cluster promotion, when the primary goal is to achieve economies of scale particularly among small firms. Industrial upgrading refers to different processes, including increasing the skill content of local production, moving into market niches that are

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relatively insulated from competition on global markets, and expanding the range of activities in a given value chain carried out within a firm or cluster of firms (Humphrey & Schmitz, 2002, p. 1018, pp. 1020–1021). Industrial clusters encompass firms that produce a wide variety of goods and services in a given supply chain as well as research and vocational training institutions and a supportive policy framework (Porter, 1990) and can serve at least two distinct purposes—cost reduction, largely through achieving economies of scale in inputs and outputs, and promoting innovation through sustained interaction among capitalists. [2] In its earlier stages, upgrading focuses more on expanding the range of activities carried out within the value chain and moving into market niches rather than on boosting the skill content of local production. Many developing countries, including Morocco and Tunisia, face major obstacles to expanding local research and development capabilities and lack a highly skilled workforce, hindering their capacities to pursue more advanced upgrading processes. Similarly, preliminary efforts to promote clusters in developing economies tend to focus more on increasing cost efficiencies than driving innovation through exchanges among firms.

Basic indicators such as export volume and value-added as well as a comparative overview of institutional and policy initiatives indicate that Tunisia's state-led approach has been more successful than Morocco's private sector led approach in the initial stages of upgrading and cluster promotion. Although it is too soon to make definitive judgments and the determinants of the success of the approach are complex and difficult to isolate, Tunisia's relative success highlights the critical role of state initiative in the early stages of upgrading and challenges earlier literature on clustering, which generally presumed that networks of firms—rather than the state—are the prime architects of clusters. Findings from Morocco and Tunisia suggest that state-led initiatives such as implementing favorable macroeconomic policies or creating institutions to facilitate trade are initially most beneficial, while firm and associational initiatives are better suited to later steps, which call for greater firm collaboration to encourage production sharing and drive innovation-based competitiveness.

Building on the literature on upgrading and export-oriented development, the next section argues that historically constituted relationships between the state and business groups produce distinct capacities to pursue the varied components of upgrading strategies. Section 3 describes upgrading efforts in the Moroccan and Tunisian apparel sectors. Section 4 situates these outcomes historically, tracing the evolution of post-independence formal and informal patterns of business–government relations. The paper does not argue that upgrading through clustering is a magic bullet for development nor does it problematize the real merits of the approach for boosting competitiveness on global markets. [3] Rather, the paper focuses on the *politics* of industrial upgrading.

2. BUSINESS–GOVERNMENT RELATIONS AND THE POLITICS OF INDUSTRIAL UPGRADING

(a) *States, business associations, and firms in upgrading and cluster promotion processes*

Contemporary industrial development policy emphasizes innovation and learning processes, yet the "mere presence of a cluster of firms, or of district-like features are insufficient to generate learning" (Perez-Aleman, 2000, p. 50). Rather, institutions that coordinate exchanges between relevant actors and enhance collective capabilities to identify and implement policies and institutions aimed at improving the quality and efficiency of production are necessary. A political and social environment facilitating the generation and exchange of ideas across and among state and societal actors and institutions is critical for industrial clusters. But there is no single recipe for promoting upgrading and clusters. Different countries with distinct patterns of business–government relations adopt varied paths toward pursuing these strategies.

Earlier analyses of clusters and industrial district privileged firm and inter-firm initiatives in explaining the rise and success of clusters in Western Europe (Piore & Sabel, 1984; Schmitz & Musyck, 1994; Schmitz & Nadvi, 1999). According to these accounts, firms and networks of firms were the origins and foundations of industrial clusters, while the state played a negligible role in fostering their emergence.

If inter-firm relations are vital to firm-level upgrading, business associations can play a key role in linking firms together and interacting with other institutions such as the state, labor unions, and research and development centers. [4] But not all business associations are alike. "Developmental" business associations

(Doner & Schneider, 2000) can promote local industrial clusters by improving firm capabilities, promoting learning processes, identifying new markets, and coordinating exchanges among actors within a cluster (Perez-Aleman, 2000, p. 51; Porter, 1998; Silva, 1997; pp. 154–155). [5] Business groups can devise, execute and monitor policies, and identify macroeconomic or sector-specific obstacles to improving in production processes. Take the example of vocational training. Business associations and firms can help design and monitor training programs and can identify which skills are lacking in the local workforce for evolving forms of production (Perez-Aleman, 2000, p. 44; Schmitz & Musyck, 1994, p. 896). For example, in the high-growth Asian economies, the private sector identified and executed key industrial policy changes (Doner, 1992). In European industrial districts, the private sector provided services such as information on international technical standards and established testing facilities to insure minimum quality standards (Piore & Sabel, 1984; Schmitz & Musyck, 1994, p. 897).

To qualify as developmental, producer organizations must be more than vehicles for obtaining government concessions for constituents, a logical function under protectionist trade regimes. [6] Clientelist, non-developmental producer organizations, however, are not well suited for export-promotion strategies, which require policies that encourage firms and business associations to invest in upgrading management and production techniques. Such organizations must be sufficiently representative and inclusive to enable their leadership to negotiate effectively on behalf of constituents and to broker agreements with the state (Moore, 2001). Given the contributions of firms and producer associations to industrial upgrading, it is not surprising that the private sector was a key focus of earlier research on industrial clusters.

A second generation of research, however, emphasizes the state's role in fostering and sustaining clusters (Brusco, 1990; Schmitz & Musyck, 1994, p. 903). State support is all the more needed when the constant pursuit of innovation and improved productivity are the basis for upgrading. It is now almost axiomatic that state intervention is essential for industrial development (Amsden, 1989; Chibber, 2005; Evans, 1995; Kohli, 2004; Underhill & Zhang, 2005; Wade, 1990; Waldner, 1999) and especially for promoting innovation and productivity growth in small firms, which far outnumber larger firms in Morocco, Tunisia, and most developing countries. [7] Proactive government policies can encourage the formation of a skilled and educated workforce, improve infrastructure and allow for, if not actively promote, the creation of firms in complementary activities. The state can also foster a pro-business policy environment by facilitating access to subsidized credit, providing competitively priced infrastructure such as land, electricity,and water, and offering exemptions from taxes or social security regulations, among other things (Schmitz & Musyck, 1994, p. 903). [8] Furthermore, state policies can create or support vocational training centers, foster linkages between research and development institutions, firms, business associations and marketing channels, and identify priority sectors for development.

(b) *Business–government relations and varied processes of upgrading and cluster promotion*

Distinct relationships between business and government lend themselves to different modes of upgrading and promoting clusters. Evidence from Latin America and East Asia demonstrates that the quality of business–government interactions affect how export-led development policies are formulated and implemented (Doner, 1992; Evans, 1995; Kohli, 2004; Locke, 2001; Silva, 1997) and state "embeddedness" (Evans, 1995) in the business community can enable the formulation and execution of successful development policies. Even in non-democratic settings, where social groups face circumscribed institutional channels for transmitting preferences to the state, patterns of state–society relations vary in terms of their capacities to facilitate exchanges between business association leaders and state officials as well as among firms.

It would be misleading to make general statements about which patterns of business–government relations are ideal; instead, it is more useful to disaggregate upgrading and cluster promotion processes into different institutions and policies. The formulation and execution of these policies and institutions can be viewed in terms of collective action dilemmas, each of which is most easily resolved by the state, producer associations, firms, or other stakeholders. Noble (1998, pp. 17–22) argues that establishing inter-firm consortia to promote research and development or regulating production volume in industries with economies of scale conform to a prisoner's dilemma model, in which firms have an incentive to free ride or defect. The standardization of industry materials and products, which poses a different kind of collective action problem, requires coordination, which is difficult to achieve but provides little incentive for firms to defect. Resolving these distinct dilemmas requires different kinds of state capacities, including mediation and negotiation skills to facilitate coordination among firms and between business and the state or regulatory and coercive capacity to reward cooperation and punish defection (Noble, 1998, p. 21).

While Noble focuses on the state, other institutional actors can also resolve collective action problems. Business associations (as well as less formally structured collaborative arrangements among firms) may be more appropriate institutional brokers to promote inter-firm or public–private coordination. For example, producer organizations are well suited to organize joint purchasing of expensive, high-tech machinery among small groups of firms, facilitate production sharing arrangement among firms, organize trade shows, identify gaps in macroeconomic policies, negotiate production standards and protocols, and generally coordinate inter-firm relations. Countries with developmental business associations, then, may have an advantage in solving the kinds of collective action dilemmas that require coordination among capitalists and firm-level information gathering and aggregation.

On the other hand, state agencies may be better equipped than producer associations to facilitate enterprise creation through "one-stop windows" and business incubators, promote R&D through consortia, encourage the geographic concentration of related firms by creating technology and industrial parks, and improve worker skills by establishing vocational training centers. Countries where the state historically took the lead in establishing industrial policy may be well placed to undertake such initiatives. Different policies and institutions central to upgrading and clustering involve varied mixes of state and business initiative. The Moroccan and Tunisian experiences suggest that different historical patterns of business–government relations facilitate different aspects of these strategies.

3. PROCESSES OF INDUSTRIAL UPGRADING IN MOROCCO AND TUNISIA

Tightening world markets, the dismantling of the MFA, and competition from China make exports of higher value-added manufactures, increased efficiency and reduced speed-to-market essential for countries such as Morocco and Tunisia that can no longer compete on the basis of low wages. Furthermore, international buyers increasingly seek "full package production," a contracting arrangement in which suppliers receive detailed specifications from buyers, acquire all inputs and coordinate most phases of production (Abernathy, Dunlop, Hammond, & Weil, 2003; Cammett, 2006; Gereffi, 1999). As in many developing countries, policy makers and business leaders in Morocco and Tunisia viewed upgrading, often couched in the language of clustering, as the means to achieve these goals. In reality, there is no blueprint for upgrading, and the cases of Morocco and Tunisia suggest that different patterns of business–government relations facilitate the adoption of distinct elements of upgrading strategies.

(a) *Comparing Morocco and Tunisia*

Since the 1970s, Tunisia has been more integrated in the global economy than Morocco and has promoted exports more successfully. As Table 1 shows, trade and, more specifically, exports as percentages of GDP have been and remain higher in Tunisia than in Morocco. [9]

Yet in other respects the two countries are similar. First, Morocco and Tunisia occupy comparable positions in the global economy. In 2005, the industrial sector accounted for approximately 36% of GDP in Morocco and 32% of GDP in Tunisia while industrial value added as a percent of GDP was 31% in Morocco and 28% in Tunisia.

The combined textile and apparel industries are vitally important in both economies,

Table 1. *Comparative economic data: Morocco and Tunisia (2005)*

Indicator	Morocco	Tunisia
Trade/GDP	77	99
Exports/GDP	34	48
GDP composition by sector		
Agriculture	22	13
Industry	36	32
Services	43	55
Industrial value added/GDP	31	28
Textiles and apparel/total exports	37	33
Textiles and apparel/GDP	4	7

Sources: CIA World Factbook, World Development Indicators, UN Comtrade Database.

accounting for 4% and 7% of GDP in Morocco and Tunisia respectively, as well as over 40% of manufacturing employment in each country (Amcham, 2006; UN Comtrade database; UNIDO, 2006; World Bank, 2006b). Furthermore, apparel exports as a percentage of total exports amounted to 37% and 33% of total Moroccan and Tunisian exports, respectively. In the two countries clothing, fish, phosphates and chemicals, and agricultural products are the main exports, although the Moroccan economy is more diversified, and both are middle-income, non-oil economies with longstanding ties with Europe and particularly with France. These relations continue in distinct forms to this day: Morocco and Tunisia signed Association Agreements with the European Union in the mid-1990s. Second, Morocco and Tunisia are considered more economically successful by regional standards and have pursued export-oriented industrialization more vigorously than most other Middle Eastern and North African countries. Third, both policy makers and business people in Morocco and Tunisia explicitly endorse upgrading and are promoting integrated local apparel clusters.

Despite these broad similarities, business–government relations have evolved differently in these two distinct types of ‘‘authoritarian’’ regimes. In the Moroccan monarchy, the king retains authority over all important decisions, but the palace cultivated close ties with big capital. In the past decade, business associations representing more than just big, well-connected industrialists have become more vocal and better structured, particularly in the apparel sector. In Tunisia, the single-party state retains firm control over policy making and resource distribution and, until recently, had a more distant relationship with the business community, which has little independent organizational capacity. [10]

(b) *Efforts to promote upgrading in Morocco and Tunisia*

Morocco and Tunisia have pursued upgrading in distinct ways. In Tunisia, state initiative has played and continues to play a far greater role than in Morocco, where the private sector prodded the state into providing support after the business community undertook its own initiatives. Only in the past three years has the Moroccan state exhibited a more proactive stance toward upgrading. Thus far, the Tunisian state-led approach has been more successful, although Morocco started to catch up after 2000. Data on export growth, factor costs, the creation and promotion of tech parks and industrial zones, trade facilitation measures, tax incentives, and supporting institutions such as technical centers and credit programs support this claim. This section compares data on industrial performance in Tunisia and Morocco and elaborates on their distinct paths toward upgrading.

During 1992–2002, the average annual growth rate in the value added of the textile and apparel industries was nearly 6% in Tunisia and 1% in Morocco (UNIDO, 2006). As Figure 1 shows, the total value of apparel exports was substantially higher in Tunisia than in Morocco during the early to the mid-1990s and generally remained greater in Tunisia in the late 1990s and early 2000s, despite substantial improvements in Moroccan levels during this period.

Following the dismantling of the MFA in 2005, Morocco suffered even more than Tunisia as apparel exports to world markets from the two countries declined by 7.4% and 5.8% respectively (Diop, 2006, p. 4; World Bank, 2006b, p. 19). [11]

Each country currently has two export-processing zones, but total employment and firm concentration is much greater in Tunisia than in Morocco. [12] Tunisia was also more proactive in creating vocational and technical training institutes and technology parks than Morocco. Each country has one fully operational technology park, both of which focus on information and communication technologies (ICT), but Tunisia has five additional parks targeting diverse sectors under construction. Morocco plans to construct additional parks in Marrakesh, Rabat, and Tangiers, which also focus on ICT (Author interview, Jean Abinader, Deputy Director, Moroccan American Center for Policy, December 20, 2006; UNIDO, 2006).

The data on factor costs are less clear cut with more favorable costs in Morocco than in Tunisia in certain key areas. For example, the cost of water, an important input for textile manufacturing, is US$0.11 per cubic meter in Morocco and US$0.59 in Tunisia while the short and medium bank lending rates are 7% in Morocco and range from 8% to 9.5% in Tunisia. Other key inputs, however, are more expensive in Morocco than in Tunisia. For example, electricity, a significant factor cost in thread and fabric manufacturing and refining, is US$0.12 per kilowatt in Morocco and US$0.045 per kilowatt in Tunisia. On average,

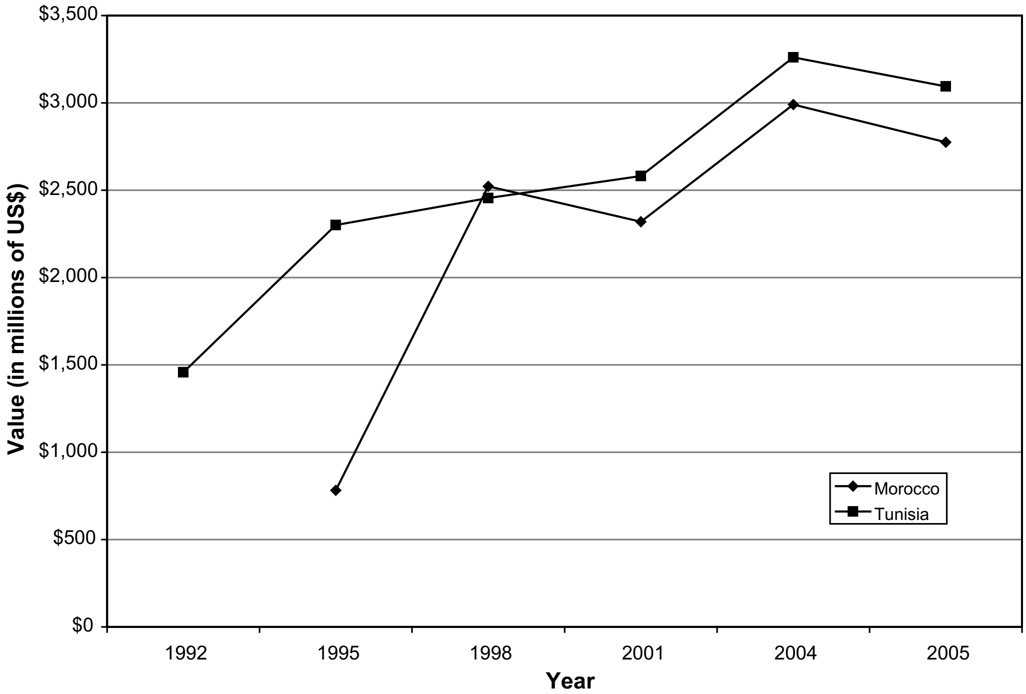

Figure 1. *Total apparel exports—Morocco and Tunisia, selected years. Source: UN Comtrade Database, selected years.*

the price of land is cheaper in Tunisia than in Morocco: In industrial zones, which feature special investment incentives, prices range from about US$13 to US$47 per square meter in Tunisia and US$47 to US$59 per square meter in Morocco. Outside of industrial zones, land prices range from approximately US$5 to US$59 in Tunisia and US$13 to US$19 in Morocco, depending on the city or region (Basti & Bechet, 2005, p. 78, 81; Hamri & Belghazi, 2005, pp. 53–55). [13]

Trade facilitation, which includes simplifying trade procedures and document processing, improving customs and port systems, promoting quality and safety standards, and streamlining trade logistics, is more efficient and less corrupt in Tunisia than in Morocco (Author interview, Ndiame Diop, Senior Economist, World Bank, December 21, 2006; Alavi, 2004, p. 88). Since 1989, Tunisia has had a *guichet unique*, or a "one-stop window" to facilitate firm creation. In addition, the Customs Authority places agents in individual firms and industrial zones to carry out on-the-spot inspections. Beginning in 1999, Tunisia simplified and automated the processing of trade documents based on international standards and became the first country in the region to apply ICT to the entire range of trade documents. In 2000, Tunisia established Tunisie Trade Net (TTN), which provides electronic data interchange (EDI) for all relevant parties to expedite trade document flows. The results of these initiatives are tangible, with the average time for clearance of imported goods reduced from an average of eight days in 1999 to three days in 2004 and physical inspections of goods decreased from 50% to 80% in late 1998 to 15% in 2004 (Alavi, 2004, p. 89).

Since the mid-1990s, the Moroccan Customs Authority also increased the efficiency and transparency of customs processing procedures but lags behind Tunisia. Morocco, too, adopted ICT but only applied its trade facilitation reforms to customs processing and the ports, overlooking other integral dimensions. Furthermore, unlike Tunisia, the government has not implemented an EDI network to process trade documents, although it announced plans to implement a system modeled on the Tunisian TTN (Author interview, Diop, 2006, p. 4; Alavi, 2004.). Data from the World Bank's Doing Business database, which compares the regulatory environments across 175 economies, confirmed Tunisia's edge over Morocco in facilitating trade in 2006 (World Bank, 2006a). [14]

In addition to these measures, the Tunisian government implemented and heavily promoted tax incentives for export-oriented firms in the early 1970s. The most significant measure was the "1972 law," which encouraged exports and foreign direct investment through fiscal incentives to foreign and local exporters. The law gave rise to a class of exporters with ties to overseas markets and clients at a time when most developing countries—including Morocco—were still pursuing import substitution industrialization (ISI) strategies. The Moroccan government did not actively promote a similar policy until 1985, when regulatory reforms streamlined the *Admissions Temporaires* (AT) regime, an in-bond trade regime that requires manufacturers to reexport finished goods made with duty-free imported inputs within six months. Tunisia's relative success in trade promotion partly stems from its implementation of fiscal incentives over a decade prior to Morocco and other countries in the region (Cammett, 2007).

Tunisia was also more proactive in establishing supporting institutions to help companies compete in world markets. In 1973, the government created the *Agence pour la Promotion de l'Industrie* (API), which provides technical support and market information to investors, and the *Fond pour la Promotion et Décentralisation Industrielle* (FOPRODI), which provides subsidized loans to new enterprises. In the 1990s, the Tunisian government also created sector-specific technical support centers for selected industrial activities such as the *Centre Technique du Textile* (CETTEX), which provides tailored consultations and assistance to textile and apparel firms. Official rhetoric and the legal statutes establishing CETTEX hold that the state created the center in response to business lobbying but, in reality, it was purely a state initiative (Author interview, CETTEX official, Ben Arous, Tunisia, July 20, 2000; Cammett, 2007).

The Tunisian state also promotes firm-level upgrading through non-sector-specific institutions. Founded in 1995, the *Programme pour la Mise à Niveau* (PMN) is the jewel in the crown of government upgrading programs (Author interview, PMN official, Tunis, June 1998; *Réalités*, May 26–June 1, 1995, p. 15; *Réalités*, June 16–22, 1995, p. 21). The government provides incentives for participation in the form of subsidies and loan guarantees for firms selected for participation. Although officials and producer association representatives insist that the business community demanded its creation, the PMN was a state initiative backed by EU funding.

In January 2005, the Tunisian Council of Ministers adopted a series of measures to promote full package production and the production of higher value added goods in the apparel sector. The strategy targets high-performing firms to help them work directly with global buyers and establishes a "technopole" in Monastir and a textile finishing zone in El Fejja to promote upstream industries in the apparel cluster (World Bank, 2006b, p. 67). The measures also created additional institutions such as the *Fonds de Promotions des Exportations* (FOPRODEX) and the *Fonds d'Accès aux Marchés d'Exportations* (FAMEX), which provides market information, loan guarantees, and technical support around trade logistical issues to facilitate export market penetration. Of course, the mere existence of these programs does not attest to their effectiveness, and there is considerable duplication in the goals and activities of these supporting institutions (Author interview, Basti & Bechet, 2005; Cammett, 2007; Diop, 2006, p. 4; Malouche, 2006).

In Morocco, upgrading and cluster promotion in the apparel sector largely came from industrialists and business associations, while active state engagement emerged later. By the mid-1990s, the Moroccan Association of Textile and Apparel Manufacturers (AMITH) pushed for sectoral integration [15] and policies to upgrade local production. [16] The association's endorsement of clustering was clearly articulated in the *Contrat-Program*, a policy paper first presented to government officials in 2000. The Contrat-Program called for fiscal incentives and other measures to boost sectoral integration and promote a "made in Morocco" label, including higher value-added local design capacity. In exchange for a more favorable business climate, AMITH members pledged to raise employment in the sector over time. While the government did not fulfill most of the association's demands, it made some concessions in the price of infrastructure costs and tax burdens on firms (Cammett, 2007).

AMITH also directly addressed the policy demands of some of its constituents by calling for the creation of the *Ecole Supérieure des Industries du Textile et de l'Habillement* (ESITH), which was founded in 1996. A collaborative effort between AMITH and state agencies, ESITH trains textile engineers, offers courses on new technologies, provides technical assistance to firms, and carries out applied research in the textile and apparel industries. By founding the institution, AMITH and state officials aimed to increase domestic local value added by fostering domestic design capabilities and increasing worker skills (Cammett, 2007). ESITH admitted its first class in 2004, with the goal of training 80 engineers specializing textile and apparel production, international production logistics, or product management. The school also offers a three-year professional degree focusing in either textile or apparel production management (ESITH, 2006).

The Moroccan government has officially supported clustering since the mid-1990s but, from the perspective of local producers, the state did not actively pursue this goal until about 2002. *Le Maroc Competitif*, a report commissioned by the Ministry of Industry and published in 1996, identified four primary *grappes* or clusters for development, including tourism, maritime products, electronics and internet technology, and textiles and apparel (DRI/McGraw-Hill, FOCS, & Créargie, 1996). But it was not until the Moroccan government signed the Framework Agreement with AMITH in 2002 and issued the *Plan Emergence* in 2005 that the state adopted a more proactive stance toward upgrading. The Framework Agreement established a Financial Restructuring Fund (FORTEX), called for reform of the tax system, created an upgrading fund to support firm-level restructuring of technical, capital and human resources, and required the state to cover 50% of employer social security costs and a share of electricity costs. The product of a collaborative effort between the Ministry of Industry and business associations, the Plan Emergence outlines a strategy to promote domestic industries that have the potential compete successfully on world markets (Government of Morocco, 2005). The plan prioritizes the textile and apparel sectors, calling for reduced customs duties on primary products and key inputs, measures to boost textile and apparel exports by promoting Morocco as an export platform, [17] and the creation of funds such as the *Fonds de Garantie de la Restructuration Financière* and the *Fonds National de la Mise à Niveau* (FOMAN) to help firms modernize and restructure their debt (Berrada, 2005; Hamri & Belghazi, 2005, pp. 40–41). [18] State initiatives are central to the plan, committing the government to improve the educational system, the transportation infrastructure, and the bureaucratic environment for private enterprise. Like the Tunisian strategy adopted in the same year, the Moroccan plan calls for the creation of specialized clusters for the upstream textile industry and calls on government agencies to "pick winners" among firms based on performance criteria by supporting their upgrading efforts and integration in global production networks (Author interview, Diop, 2006, p. 4; Government of Morocco, 2005; World Bank, 2006b, pp. 67–68).

A comparative analysis of Morocco and Tunisia underscores the importance of state initiative in the early stages of efforts to promote upgrading when cost reductions are especially critical. In Tunisia, macroeconomic policy changes and other components of a cluster-based approach dependent on state-led coordination were prioritized while other aspects requiring inter-firm or associational collaboration were largely unfulfilled. The Tunisian government actively promotes tax breaks, the creation of training centers, and streamlined customs processing procedures but does not facilitate firm and industry level coordination. Tunisia has profited from its relatively long experience with export promotion (albeit through low value-added assembly), which include some of the very policies that are central to the initial stages of industrial upgrading.

Arguably, other aspects of upgrading that require inter-firm cooperation such as production sharing should be the responsibility of business associations or firms. Indeed, Tunisian Ministry of Industry officials bemoan the reluctance of local industries to pursue sectoral integration. But it is unlikely that the state wants effective business associations to emerge (Bellin, 2002; Cammett, 2007) and, accordingly, government initiatives largely focus on industrial upgrading within *individual* firms rather than across firms, as a cluster-based strategy also entails. Tunisian economists contend that state initiatives such as the PMN or technical centers do not encourage closer inter-firm relations, which could be a source of innovation and dynamic productivity gains (Author interview, Economist, University of Tunis, April 2000; Author interview, Economist, University of Tunis, June 2000). Governments in some developing countries have explicitly encouraged the formation of collaborative inter-firm relationships by making access to credit or financing contingent on group-based projects (Perez-Aleman, 2000, p. 47), but the Tunisian state has not undertaken such strategies nor has it incorporated private sector groups in formulating and implementing industrial policy.

The Tunisian business community as a collectivity is not an active partner in the industrial upgrading process, although individuals—especially those linked to the families of the president and his wife—have growing influence in the state. Business associations and groups of firms have not pursued sectoral integration strategies nor have they attempted to forge the kinds of collaborative intra-industry or business–government linkages that are central to aspect of clustering. On the contrary, business associations are little more than vehicles for conveying state policy to the private sector. Yet industrialists call for greater inter-firm collaboration while studies of the Tunisian apparel sector repeatedly advise both the state and the business community to upgrade local textile capabilities through greater vertical integration in the local apparel supply chain (Author interview, Marketing Director, textile firm, Ben Arous, Tunisia, May 11, 2000; Author interview, Artistic Director, Textile firm, Jebel Ouest, May 18, 2000; Author interview, Director, multinational apparel firm, La Marsa, Tunisia, November 8, 2000).

The Moroccan pattern of business initiative and subsequent public–private collaboration in promoting upgrading conforms more closely with earlier notions of how clusters arise in the literature, but until recently the government was reluctant to or incapable of implementing core institutional and policy measures. Morocco has a longer and more entrenched experience with import-substitution industrialization (ISI) than Tunisia and therefore must balance the interests of more established protectionist interests and apparel sub-contractors.

Business associations, especially AMITH, spearheaded the push to upgrade in Morocco. In the process, the association became an active player in industrial development, evolving from an inactive organization whose small membership relied on clientelist ties to state officials to a more developmental business association that assists firms in upgrading (Cammett, 2007). This is a potentially important process-oriented advancement because developmental associations are well placed to foster inter-firm linkages, which in turn can drive the innovation and efficiency improvements integral to later stages of upgrading.

Comparative data on export growth, input prices, and institutional reforms suggest that Tunisia has been more successful than Morocco in the early stages of upgrading and cluster promotion. In turn, Tunisia's relative success indicates that a state-led approach is not only compatible with but is even necessary for cluster promotion. Upgrading and creating clusters, however, are inherently non-standardized processes: different countries pursue these strategies through varied mixes of state, associational and firm initiatives. The next section explores the distinct institutional and sociological foundations of Moroccan and Tunisian industrial policies in the contemporary period.

4. THE HISTORICAL FOUNDATIONS OF DISTINCT BUSINESS–GOVERNMENT LINKAGES IN MOROCCO AND TUNISIA

Can the "right" policies and institutional adjustments allow policy makers and business groups to pursue a cluster-based strategy, as some approaches imply (Porter, 1990, 1998), or do more engrained patterns of state–society relations condition success? I argue that patterns of state intervention in the economy and business organization, constituted over decades, shaped recent Moroccan and Tunisian experiences of upgrading and cluster promotion. Tunisia's relative success stands on decades of state-led development whereas Morocco's history of protectionism and "cozy" state–business relations have both hindered the adoption of some policies and ensured a significant role for business in the process.

(a) *State-led upgrading and the legacy of statist policies in Tunisia*

Why has the Tunisian state rather than business spearheaded upgrading and clustering, which—at least in theory—call for inter-firm cooperation and private initiative? Two factors explain the Tunisian path. First, an institutionalized tradition of state dominance over economic policy making prevents business groups from taking independent action to formulate and pursue shared goals. Second, the looming threat of state repression deters collective action—even in the business community, which the Tunisian government itself exalts as the main drivers of economic growth in the age of economic liberalization. State control effectively obliges individual firms to seek aid directly from the state rather than to pursue collaborative solutions through informal arrangements or producer organizations.

Since independence in 1956, the Tunisian state has adopted an activist stance in economic and social affairs. In contrast to Morocco, where large capital always enjoyed a privileged position in the domestic political economy, the Tunisian government encouraged social mobility and fostered the emergence of a middle class through social policy. Dominated by members of the provincial petit bourgeoisie and closely linked to the labor movement, the independent state marginalized political and economic elites who prospered under the precolonial regime and French rule. The social foundations of the state and its policies shaped class formation and virtually created the postindependence industrial class (Anderson, 1986; Bellin, 2002; Cammett, 2007).

During the 1960s, a brief experience with collectivization and quasi-socialist policies laid the foundations for the growth of an indigenous industrial bourgeoisie by instituting measures to protect the local market from foreign competition, but by the end of the decade, sluggish private investment convinced officials to adopt a radically different approach to foster the growth of local private business. During the 1970s, incentives for private investment multiplied, and the state created institutions and parastatal agencies such as the API and FOPRODI to promote industrial development (Dimassi, 1983, pp. 714–718). The "1972 law" was perhaps the most direct spur to private investment, particularly in the export sector (Ben Romdhane & Signoles, 1982, pp. 84–87).

The impressive degree of state institutional support for private investment since the 1970s (and even earlier) might suggest that the Tunisian business class was well organized and proactive in support of its interests. In reality, businesspeople never had to develop mobilizational skills because the state consistently preempted private sector interests or thwarted attempts at collective action. Progressive state cooptation rendered civic associations, including business organizations, virtually meaningless. Since its creation, the Tunisian Union of Industry, Commerce and Artisanship (UTICA), the peak-level business association, has served as a vehicle for channeling support to the party and disseminating party goals. The party permeates every level of the union's organization, and even local leaders were either long-term party members or party branch officers. Under Zine El-Abidine Ben Ali, the current president who succeeded President Habib Bourguiba in a bloodless coup in November 1987, state cooptation has intensified (Angrist, 1999, p. 94; Khiari & Lamloum, 1998, pp. 394–395). Even the textile federation, considered one of the more effective groups (Nugent, 1989), posed little opposition to state policies threatening the interests of its membership.

Coercion and the suppression of civil liberties deter the rise of effective producer lobbies and collaborative relationships between capital holders, but the state primarily relies on other, less overtly repressive tactics to maintain control over business. In a context where most businesses routinely ignore tax laws and environmental regulations, arbitrary law enforcement and, particularly, the looming threat of an official audit are important methods of social control. Political dissent or mobilization can invite the state to "enforce" these laws with a visit from the *Brigades Economiques*, the tax auditing wing of the Ministry of Finance. In the absence of organized business lobbying, individual capital holders tend to shun political lobbying and favor economic activities with minimal risk such as the distribution and sale of consumer goods. Some even prefer to shut down rather than push for policy demands.

State anticipation of industrialist needs also hinders collective lobbying efforts. Support for private sector activity through the extension of credit and technical support programs, sponsorship of vocational training centers, the institutionalization of triennial wage bargaining negotiations, and repression of labor mobilization are all elements of Tunisia's comparatively favorable business climate. Indeed, many of these measures explicitly promote *firm-level* upgrading, and are integral to cluster promotion. But the nature of state–society relations as they have evolved since independence deters the pursuit of innovation-driving strategies contingent on collaborative interactions *among firms* characteristic of later stages of the upgrading process. For example, Tunisian industrialists bemoaned the lack of associational support for initiatives by small and medium enterprises to invest in shared machinery or even buy shares of privatizing state-owned textile firms (Author interview, Marketing Director, textile firm, Ben Arous, May 11, 2000; Author interview, Assistant Director, textile firm, Jebel Ouest, May 18, 2000; Author interview, Director, apparel firm, Charguia I Industrial Zone, May 29, 2000).

(b) *Private sector initiative and cozy state–business relations in Morocco*

In Morocco, the state has historically played a less direct, albeit still highly interventionist role in the economy and, over time, the private sector developed greater capacity for collective organization than in Tunisia. While the public sector was always the key engine of investment

(Richards & Waterbury, 1996), the state encouraged private economic activity and capital accumulation. Prominent families with holdings throughout the economy are the main support base of the Moroccan monarchy, but economic reform modified the structure of private capital and its relationship to the state in the past decade by facilitating the rise new export-oriented investors. Although big capital remains well entrenched in the system, the enlarged private sector has introduced new forms of business mobilization. Exchanges between the invigorated textile and apparel producers' association and state agencies have institutionalized relatively symmetrical and even transparent patterns of business–government relations in some spheres of the economy and reflect the increased effectiveness of business associations.

The emergence of active business lobbies as well as business–government collaboration to promote clustering can only be understood in a historical context. After Morocco achieved independence from France in 1956, the government soon abandoned the open economic policies instituted under the Protectorate by implementing protectionist policies favoring local private economic interests (Akesbi, 1986). First implemented in the early 1960s, ISI policies helped to consolidate a local industrial class and enabled elite families to expand their economic interests.

In the 1970s, while Tunisia established export zones alongside a sheltered domestic market, Morocco reinforced protectionism by adopting further policies to promote local capital such as import licensing requirements, overvaluation of the local currency and increased import duties. The most significant set of policies adopted during this period were the Moroccanization laws, which aimed to transfer nominal ownership of French-owned assets to local private interests (Saâdi, 1989). The laws stipulated majority ownership by Moroccan nationals of companies based on Moroccan soil in the secondary and tertiary sectors. Ostensibly aimed at returning Moroccan assets to Moroccan hands, the laws enabled the economic elite to consolidate its holdings and encouraged the formation of important large business groups (Berrada, 1991, p. 90; El Aoufi, 1990, p. 12, 125). Moroccanization and the new trade regime reinforced, if not created, a powerful group of private capital holders with vast stakes in the local market. Members of these prominent families, many of which came from the city of Fes and were known as *Fassis*, [19] consolidated their influence by obtaining key positions in the administration, national banks, parastatal organizations, and producer organizations (Author interview, Director, consumer electronics retail firm, Casablanca, Morocco, November 13, 1999; Author interview, Director, textile firm, Casablanca, Morocco, November 16, 1999; Author interview, Commercial Director, textile Firm, Berrechid, Morocco, January 13, 2000; Waterbury, 1970, p. 107). In practice, personal ties to the palace constituted the main channels through which elites transmitted interests to the state (Munson, 1999, p. 259, 274; Waltz, 1999, p. 283, 296).

In the late 1980s and early 1990s, trade liberalization in conjunction with newfound opportunities on global markets fueled the rise of a new export class with more modest social origins than elite families. Growing global consumer demand and the trend toward relocation to low-cost production sites by European manufacturers propelled Moroccan investors to launch sub-contracting firms in light manufactures such as apparel. Working through the newly streamlined temporary import regime for export-oriented production, these subcontractors and exporters maintained minimal connections to the domestic market and cultivated extensive linkages to global production networks.

At first, protectionist textile elites and apparel exporters operated in separate spheres of the economy and therefore had little cause for conflict. But deepened trade liberalization and the growing frustration of exporters at the unavailability of competitive domestically produced inputs and the obstacles to importing higher quality, lower cost thread and cloth led to open struggles, which increasingly played out in producer associations. Apparel exporters effectively took over AMITH, wresting control from the hands of protectionist textile manufacturers from prominent families (Cammett, 2007).

Reactive cycles of mobilization among Moroccan industrialists brought about important shifts in entrenched, clientelistic patterns of business–government relations. By the late 1990s, the representation of business interests and pressure tactics were increasingly formalized and institutionalized in professional associations, which now reflected the interests and breadth of their membership more effectively and adopted more democratic internal governance procedures (Cammett, 2007; Catusse, 1999).

Business associations such as AMITH and, to a lesser degree, the peak-level business association—the General Confederation of Enterprises in Morocco (CGEM)—took the lead in promoting a new vision of industrial policy based on clustering. Stressing the importance of sectoral integration, moderates within AMITH sought a compromise between protectionist and export interests by calling for measures to promote a vertically integrated apparel industry in Morocco. This strategy was articulated in the Contract-Program (L'Economiste July 19, 1999; La Vie Economique March 10, 2000). At the same time, AMITH activities were increasingly developmental, as the organization's new leadership and professional staff established databases on production capacity in Morocco helped members to identify and attract global clients, organized trade shows to promote Moroccan apparel manufacturing abroad, founded ESITH, and sponsored regular seminars on upgrading and management techniques. Regular meetings and exchanges between producer groups and state agencies such as the Customs Authority, the Ministry of Finance and the Ministry of Industry created institutionalized channels of communication and facilitated dialogue between business and the state.

The protectionist trade policies and their effects on class formation hindered the shift to export policies and complicated efforts to implement some of the key macroeconomic and institutional measures central to the initial stages of upgrading. At the same time, these policies had the paradoxical effect of mobilizing emergent exporters in reaction to the perceived privileges of the ISI elite during trade liberalization in the 1980s and 1990s. The rise of a vibrant business associational life, particularly in the textile and apparel sectors, facilitated interactions among firms, creating potentially strong foundations for the later stages of upgrading and clustering that envision innovation and productivity enhancements as a result of inter-firm exchanges.

5. CONCLUSION

Historically constituted patterns of public–private linkages lend themselves to implementing different aspects of upgrading and cluster-based industrial policies. In its initial stages, upgrading focuses more on expanding the range of activities carried out within the value chain and moving into market niches rather than on boosting the skill content of local production. Similarly, preliminary efforts to promote clusters tend to focus more on increasing cost efficiencies than on driving innovation through exchanges among capital holders. Most Moroccan and Tunisian textile and apparel firms are not yet in a position to pursue innovative production techniques and strategies much less to develop in-house design capabilities and, instead, focus on basic cost reductions and efficiency improvements. Most are linked to the global apparel supply chain as subcontractors for multinational retailers or buyers, which prioritize speed-to-market at competitive prices.

Thanks to a strong tradition of state-led development, Tunisia has performed relatively well at this initial stage of upgrading, and government initiatives thus far have produced some of the technical, vocational, and policy-related requirements of a cluster-based upgrading strategy in the apparel sector. But institutions to coordinate collective, private sector participation and inter-firm collaboration have not emerged, suggesting that pursuing more advanced upgrading processes will be challenging. Moroccan efforts to upgrade, on the other hand, were characterized by private initiative and, increasingly, by public–private collaboration. In part due to pressure from new export interests, firms and business associations advocated and even implemented some of the measures associated with industrial clusters. The influence of protectionist elites, however, was at least partly responsible for hindering the adoption of a more proactive, state-led approach until several years ago. It is too soon to proclaim Tunisian success relative to Morocco—and Morocco is catching up—but Tunisia's state-led approach to industrial policy enabled greater strides towards implementing the policies and institutions associated with industrial upgrading. These comparative findings suggest that state initiative and commitment is critical for pursuing industrial upgrading and clustering in developing countries, particularly in the initial stages of these processes.

NOTES

1. The Multifiber Agreement (MFA), established in 1973, set up an elaborate system of quotas organized by product and country. In practice, the agreement limited exports of textiles and apparel from developing countries. In 1995, the Agreement on Textiles and Clothing (ATC), a multilateral trade regime established under WTO auspices replaced the MFA. By phasing out quotas and discriminatory import practices, the ATC aimed to fully integrate the textile and apparel trades into World Trade Organization (WTO) rules by 2005. The dismantling of the MFA particularly threatens manufacturers who previously enjoyed privileged access to the European and North American markets by putting them in direct competition with highly competitive exporters from Asia.

2. I thank Ben Ross Schneider for emphasizing this point.

3. On the contrary, even when states, firms, business associations, and other relevant actors implement the requisite institutions and policies, clustering and related strategies such as full-package production may have diminishing returns for developing countries (Cammett, 2006; Schrank, 2004).

4. Of course, upgrading also occurs at the individual firm level. Companies must invest in training programs, quality control programs, and laboratories. But clusters are premised on the notion that upgrading is a process that involves much more than firms.

5. "Developmental" business associations help firms to upgrade production, facilitate the resolution of collective action problems among firms, push the state to improve public goods such as infrastructure and reduce corruption, help members to gain access opportunities on international markets and generally avoid particularistic lobbying (Doner & Schneider, 2000).

6. Biddle and Milor (1997, p. 278) make a similar argument.

7. In addition, small firms often have little influence in the political system and, therefore, state intervention may be all the more critical to making their voices heard (Biddle & Milor, 1997, p. 308; Schmitz & Musyck, 1994, p. 905; Shadlen, 2002).

8. As Tendler and Amorim (1996) point out, however, such "supply-side" policy interventions may not bring about long-term development. Instead, "demand-driven" support provided by government agencies, state agencies, or large firms may enable firms, particularly small enterprises, to upgrade more effectively and in a more sustained fashion.

9. Morocco has a larger population than Tunisia. In 2005, the Moroccan population was approximately 33 million and in Tunisia, it was about 10 million. In addition, Morocco has greater poverty: GDP per capita was $4,100 in Morocco and $8,200 in Tunisia (CIA World Factbook, 2006).

10. Much research on clusters centers on cases within democratic countries, even if the role of democratic institutions has not been explicitly problematized in these studies. This analysis, therefore, yields insights ioto how the larger political setting in *non-democratic* contexts, which exhibit distinct channels of state-society exchange, shapes industrial policy. Although Morocco is a monarchy and Tunisia is a single-party republic, I do not aim to suggest that monarchies *per se* are more conducive to industrial development in the region.

11. Morocco's steeper decline probably reflects the fact that its exports include a greater share of lower value added products, which compete more directly with Asian production. A post-MFA agreement limiting certain categories of Chinese exports explains why Moroccan exports improved later in the year (World Bank, 2006b, p. 21, 23).

12. During 2000–03, total employment in export processing zones (EPZs) was 239,000 in Tunisia and 71,315 in Morocco. In addition, 2,503 firms were located in the Tunisian zones while only 63 firms were located in the Moroccan zones.

13. The available data were in Moroccan dirhams (DH) and Tunisian dinars (DT) and converted to USDs using exchange rates in effect in December 2006. One DH equals approximately US$0.12 and 1 DT is about US$0.78.

14. Tunisia ranked "80" and Morocco scored "115" in the composite measure, with a lower value signifying fewer constraints on the private sector. For example, the costs of importing, which amounted to US$600 per container in Tunisia and US$1,500 in Morocco, present a stark contrast.

15. Sectoral integration refers to cooperation and joint production between upstream and downstream firms in

a supply chain. Sectoral integration can also occur within a single firm when it incorporates multiple activities across the supply chain in one enterprise.

16. AMITH demands included reduced water and electricity prices, access to credit to facilitate temporary imports and business expansion, worker vocational training, efforts to negotiate labor peace, and collective marketing of Moroccan-made products in global markets.

17. The signing of the Moroccan-American Free Trade Accord in March 2004 created incentives for third-party investors to use Morocco as an export platform to the European Union and the United States.

18. The Plan Emergence also includes a state contribution through the Fonds Hassan II, a fund established in 1995 to promote local and foreign private investment, to subsidize up to 50% of the costs of land acquisition and up to 30% of construction costs for textile and apparel factories (Amcham, 2006; Hamri & Belghazi, 2005, p. 39).

19. *Fassi* originally referred to the *grandes familles* of the imperial city of Fes, but the term often more generally connotes privileged older elites from urban areas.

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