



MOROCCO: AN EMERGING ECONOMIC FORCE

The kingdom is rapidly developing as a manufacturing export base, renewable energy hotspot and regional business hub

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SUMMARY

Morocco will be a bright spot for investment in the MENA region over the next five years.

- The government aims to make Morocco a regional business and export hub that leverages its geographic and cultural links with sub-Saharan Africa (SSA), the Middle East and Europe.
- Investment opportunities will be underpinned by solid underlying economic growth and a competitive business environment. The World Bank ranks Morocco as the 53rd best place to do business globally and the third best place in the MENA region after the UAE and Bahrain. This compares with a global rank of 128 in 2010.¹
- Four sectors will be particularly attractive, namely export-orientated manufacturing, renewable energy, tourism and logistics services.
- The kingdom will pursue closer political and economic ties with SSA. However, this will have limited impact on investment opportunities in Morocco. Total foreign direct investment (FDI) into Morocco dwarfs Moroccan FDI into Africa.
- China's Belt and Road Initiative will drive increased Chinese interest in Morocco. An initial wave of construction-related investment will be complemented by a gradual rise in manufacturing investment.
- Social unrest will remain a persistent risk over the coming decade, although this should be mitigated by political and economic reform.

Who are we?

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¹ World Bank "Doing Business" report 2020

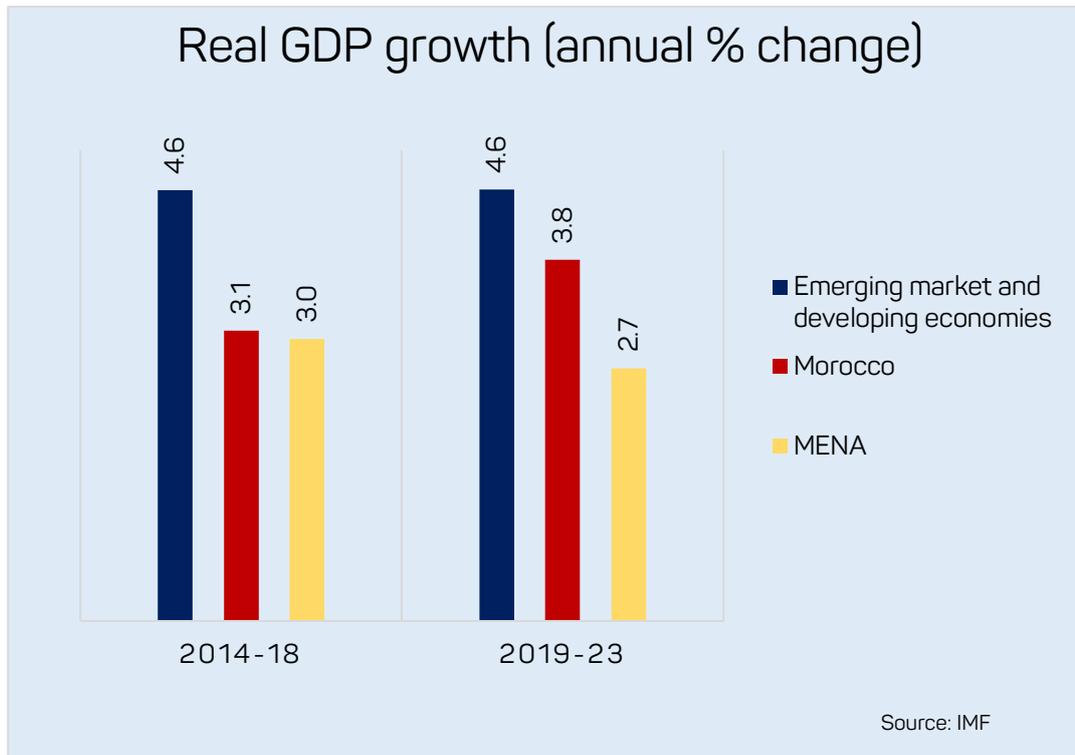


I. ECONOMIC FORECAST

Investment opportunities in Morocco will be supported by solid underlying economic growth. The kingdom will remain a strong relative performer in the MENA region over the next five years. For instance, the IMF expects that real GDP growth will accelerate from an annual average of 3.1% in 2014-18 to 3.8% until 2023 and outpace average annual growth in the MENA region of 2.7% over the period.²

² IMF World Economic Outlook, October 2019

In 2019 gross fixed capital formation as a % of GDP is expected to reach **34%**



1. AN INVESTMENT AND EXPORT-LED GROWTH MODEL

Fixed investment and exports will underpin economic growth in the coming years in line with the government's strategy to develop Morocco into an outward-facing business and export hub.

Fiscal policy has been geared towards supporting the development of the industrial sector, with the government providing funding for infrastructure projects and tax breaks for private sector fixed investment. As a result, both construction and exports have become increasingly important drivers of the economy in recent years. The IMF forecasts that public and private gross fixed capital formation will rise to a combined 34% of GDP in 2019 from 30.8% in 2015, while annual growth in exports of goods and services will average a healthy 5.1% over the same period.³

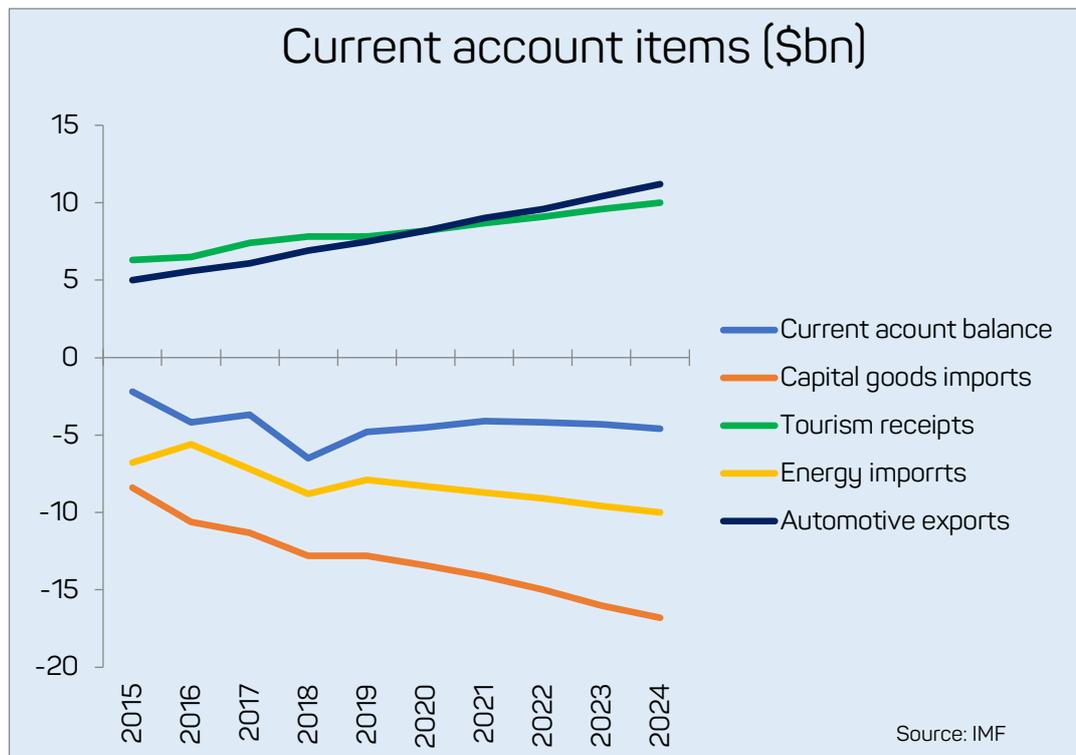
Although reliance on foreign and state financing creates vulnerabilities in Morocco's growth model, risks should remain contained in the coming years. From a fiscal perspective, the IMF expects the kingdom to run persistent, yet moderate fiscal deficits. Funding these deficits will be helped by a sustainable debt profile. At 64.9% of GDP, public debt remained below the IMF's benchmark of 70% for emerging markets in 2018. Moreover, multilateral institutions hold close to half of this debt, which increases the potential for favourable restructuring should the country ever face a debt repayment crisis.

From a balance of payments perspective, the structural current account deficit is only a modest risk to the wider economy. Although the deficit will persist due to significant

³ IMF Morocco Article IV Report, July 2019

imports of raw materials and capital goods to propel industrialisation, this external imbalance will diminish. The IMF expects that the current account deficit will narrow from 4% of GDP in 2019 to 2.8% by 2023 due to rising exports of goods and services. The deficit should also continue to be mainly financed by foreign direct investment (FDI) inflows, which are an inherently more stable and thus less risky form of financing than portfolio or “hot money” inflows. FDI inflows accounted for 75% of the financial account surplus in 2018.

By 2023 the current account deficit should fall to **2.8%** of GDP



With regard to potential credit imbalances, the IMF has no concern regarding the exposure of domestic banks to the lending surge that has accompanied robust fixed investment growth. This is in part due to the rise of fixed investment having been moderate by international emerging market standards. At 33.5% of GDP in 2018, investment as a share of the economy is not extreme compared to in more aggressively investment-led economies including China, where the ratio was 44.8% in 2018.⁴

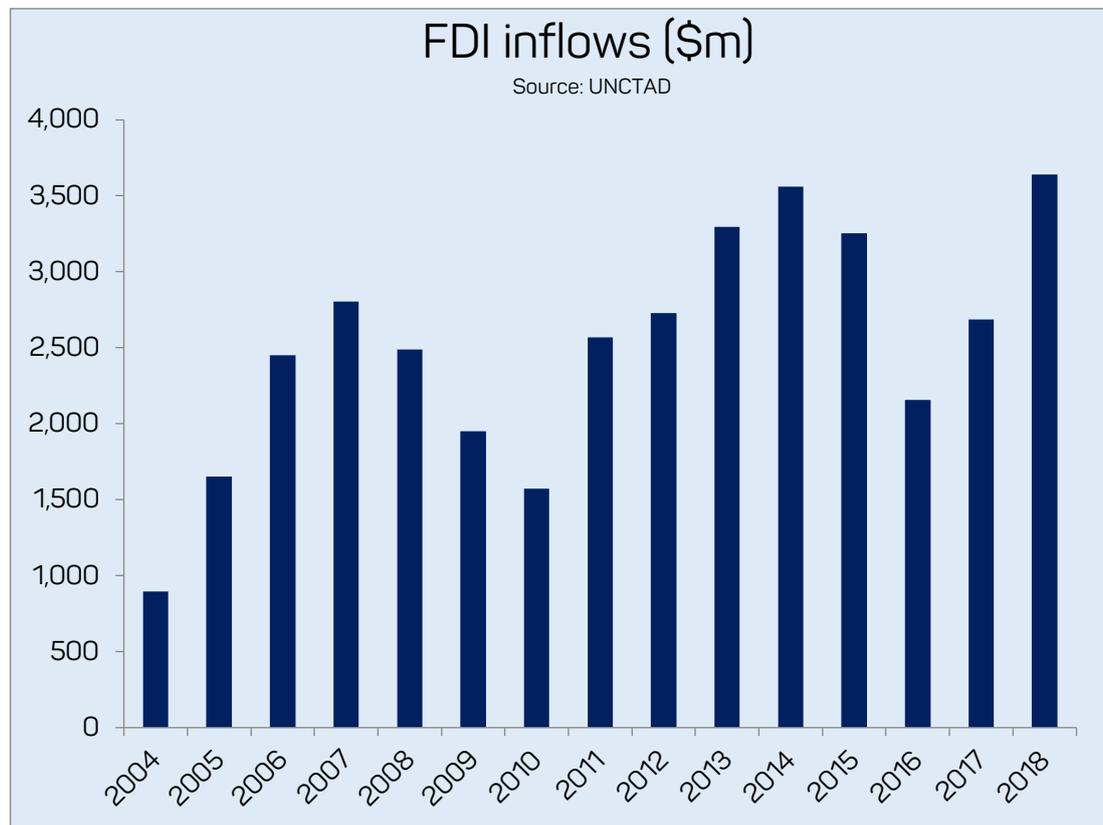
2. INDUSTRIAL BLUEPRINT TARGETS MODERNISATION

The government aims to transform Morocco into a regional business and export hub which leverages its geographic and cultural links with sub-Saharan Africa (SSA), the Middle East and Europe. To achieve this goal, the Ministry of Industry, Trade and Green and Digital Economy has published a series of development frameworks for a variety of industrial sectors. Most notably, the 2014-20 Industrial Acceleration Plan aims to

⁴ IMF World Economic Outlook, October 2019

create numerous industry ecosystems, comprising both local suppliers and large foreign firms.

While agriculture and fisheries are included in these strategies, more modern sectors, such as manufacturing, ICT, power generation, retail and tourism have been the primary focus. With regard to manufacturing and, to a lesser extent, power generation, developing Morocco into an export hub is a fundamental strategic objective.



3. REFORMS SEEK TO ATTRACT FOREIGN INVESTMENT

Due to limited domestic capital and expertise, attracting foreign investment will remain central to the government's economic development plans. Reforms have already boosted the attractiveness of investing in Morocco in recent years, contributing to surging FDI inflows. FDI grew at an average annual rate of 7.5% over the past decade to reach a record \$3.6bn in 2018, making the kingdom the fourth-largest recipient of FDI in Africa, according to the UN Conference on Trade and Development (UNCTAD).

Government policy has boosted the attractiveness of investing in the country in three main ways:

3.1 Improvements to the business environment

A raft of legal reforms have succeeded in reducing regulatory complexity and strengthening legal institutions for firms. Moreover, existing free trade agreements with major economies, including the US and the EU, have been complemented by a wave of bilateral investment treaties in recent years. Taking these factors into account, the World Bank ranked Morocco as the 53rd best place to do business globally in 2020, and the third best place in the MENA region after the UAE and Bahrain. This compares to a global rank of 128 in 2010.⁵

Morocco Global Rankings				
Measure	Rank	Total countries	Source	Year
Competitiveness	75	140	World Economic Forum	2018
Corruption	73	180	Transparency International	2018
Ease of Doing Business	53	190	World Bank	2020
Innovation	76	126	Global Innovation Index	2019

Source: US Department of State Investment Climate Statement 2019

3.2 Specific incentives

Investment incentives have been adopted for foreign firms in general and for specific industries, including renewable energy, and automobile and aerospace manufacturing. Incentives include tax breaks, import duty wavers for raw materials and the provision of industrial parks and free trade zones (FTZs). The 2020 budget envisages a cut in the tax rate for industrial firms to 28% from 31%, with a target of 20% in five years. There has also been a change in the framework for FTZs, which will be rebranded as accelerated industrial zones. Companies already operating in Morocco will continue with existing arrangements – 0% for the first five years, then 8.75% for 20 years – while new ventures will have 0% for the first five years, then 15%. The rate for export-oriented companies will go up from 17.5% to 20%.

⁵ World Bank “Doing Business” report 2020

Investment incentives for investors

FREE TRADE ZONES: Export Processing Zone of Tangier, Tanger Med Ksar el Majaz free zones Melloussa 1 and 2, Dakhla and Laayoune free zones, Kebdana and Nador free storage zones for hydrocarbons, Kenitra export processing zone, Casablanca Aeropole Nouaceur and Midparc free zones.

Companies pay lower tax rates in exchange for an obligation to export at least 85% of their production

Industry-specific incentives for firms in automobiles, aerospace and renewable energy

VAT exemption for imports of equipment materials and tools for firms undertaking investment projects worth at least \$20m. Incentive lasts for 36 months from the start of the business

CASABLANCA FINANCE CITY (CFC): Firms receive a variety of incentives, including exemption from corporate taxes for the first five years after receiving CFC status. This is to encourage businesses to locate their regional headquarters in Morocco

FUNDING SCHEMES: Various subsidy schemes for local and foreign businesses including the Investment and Industrial Development Fund and the Hassan II Fund

Sources: Morocco Ministry of Industry, US State Department Investment Climate Statement 2019

3.3 Infrastructure improvements

Government legislation and accompanying investment has vastly improved the country's logistics infrastructure and lowered operating costs for businesses over the past decade. A new public-private partnership law in 2014 added impetus to transport sector investment. Significant recent projects completed include the \$4bn Tangier to Casablanca high-speed railway and the \$800m Tanger Med port Terminal 2. Major road, rail, airport and port infrastructure upgrades will continue in line with goals set out in the government's long-term infrastructure strategy. Ultimately, Morocco aims to position itself as a strong link in Africa-Europe and intra-Europe trade.

4. LIMITS TO ATTRACTIVENESS

Despite the reforms of recent years, the attractiveness of investing in Morocco retains significant weaknesses.

First, there are limits to foreign ownership in agriculture, banking, telecoms, maritime transport, oil and gas, and phosphate mining. Second, government and judicial bureaucracy remain inefficient by developed market standards, with weak enforcement of intellectual property rights, for instance. Finally, foreign firms complain of insufficient local skilled labour, particularly in high-tech sectors such as automotive and aerospace manufacturing. Weaknesses in the quality of the education system have contributed to low literacy rates of around 60%. Reflecting this last point, Morocco's rank in the 2017–18 World Economic Forum Global Competitiveness Index was dampened by low scores in labour market efficiency, higher education and training, and innovation.

A lack of local skilled labour is an issue for emerging

high-tech industries

Limits on foreign ownership

AGRICULTURE: Foreigners are barred from owning agricultural land, though they can lease it for up to 99 years

BANKING: The state has the right to limit foreign majority stakes in large national banks

OIL AND GAS: The National Agency for Hydrocarbons and Mines (ONHYM) retains a compulsory 25% share of any exploration licence or development permit

PHOSPHATES: The state has a monopoly on phosphate extraction through a 95% stake in the state-owned Office Cherifien des Phosphates (OCP)

TRANSPORT: There is a 45% cap on foreign investment in air and maritime transport companies

Source: US State Department Investment Climate Statement 2019



II. SECTOR OPPORTUNITIES

Investment opportunities in Morocco will be particularly attractive in four sectors, namely export-orientated manufacturing, renewable energy, tourism and logistics services. The table below summarises the outlook for these and other sectors prioritised by the government, including those with less attractive prospects, such as ICT and business process offshoring.

Opportunities in Industry		
Sector	Selected Companies	Growth Prospects
Manufacturing		
Aerospace	Bombardier, Eads, Boeing, Safran, Lisi Aerospace, Le Piston Français, Daher, Souriau, Ratier Figeac, Eaton, Aerolia, Les Ateliers De La Haute Garonne, Alcoa, Hexcel, Stelia	Aerospace parts are a particularly fast-growing, high value-added export sector, albeit still small compared to autos and electrical machinery
Automotive	Renault, Snop, Gmd, Bamesa, Delphi, Yazaki, Sews, Saint-Gobain, Peugeot Citroen	In addition to hosting production facilities for major international car brands, Morocco is an attractive opportunity for parts suppliers
Building Materials	Lafarge Maroc, Ciments Du Maroc, Super Cérame, Roca, Granimarbre, Briqueterie Slaoui, Sadet	The government aims to create five hubs: prefabrication, ceramics, marble, steel and cement

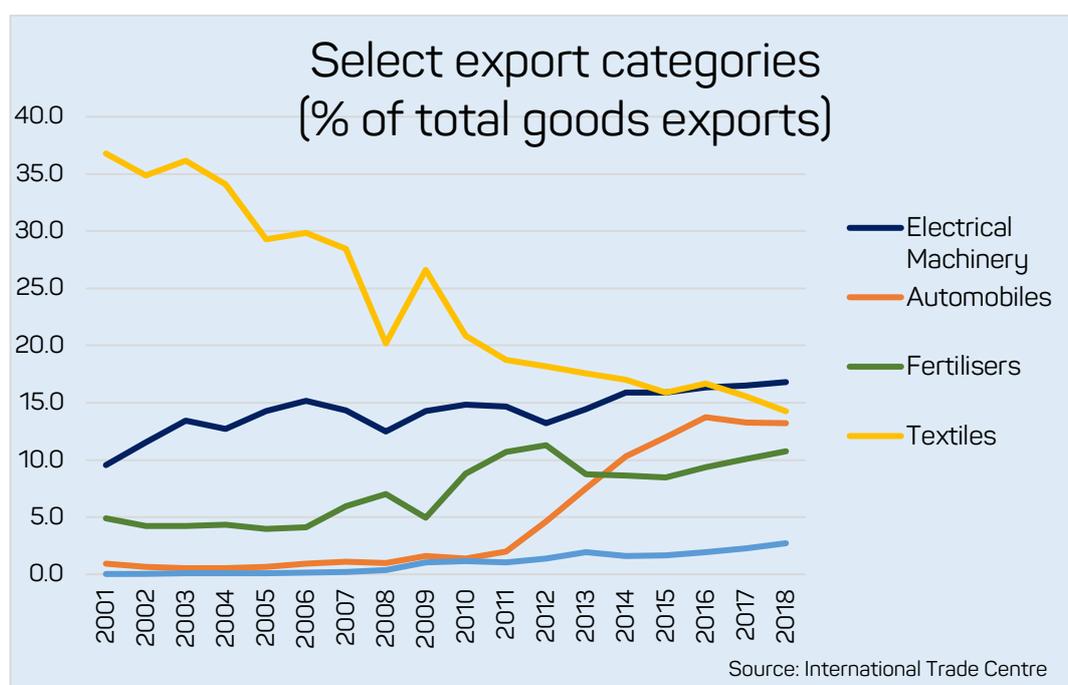
Chemicals	OCP, Procter & Gamble, International Paper (IP), Atlas Peintures, Societe Nationale D'Electrolyse Et De Petrochimie (Snep), GPC, Sevam	The industry is dominated by the state-owned OCP, a phosphate miner and fertiliser producer. OCP represents 52% of the sector's turnover and 90% of exports
Electrical Machinery	STMicroelectronics, Lear Corporation, Automotive Electronics Morocco, Crouzet, Eolane, BM Electronics Systems, ABB, Simon International, Schneider Electric	Derived demand from booming renewable energy supply and manufacturing sectors in Morocco and the EU
Metallurgy	Sonasid, Maghrebsteel, Univers Acier, Ynna Steel, Moroccan Iron Steel, Somasteel	Derived demand from strong manufacturing industry growth and the construction project pipeline
Textiles and Leather	Fruit Of The Loom, Décathlon	Exports stagnated in 2014-18 due to strong competition from lower-cost producers in South-east Asia
Other		
Agriculture	NA	Foreign ownership of agricultural land is prohibited, but leasing is allowed. Exports of fruit, nuts and vegetables grew by 10.6% per year in 2014-18 to \$2.5bn
Business Process/IT Offshoring	Capgemini, CGI, BNP Paribas, AXA, IBM, Accenture, Dell, Amazon, Ubisoft, Webhelp, Atos, Steria, Gfi Informatique, Sqli	Morocco was voted best offshoring destination by the European Outsourcing Association in 2012. Lack of an English-speaking workforce limits growth potential.
ICT	Maroc Telecom, Orange Maroc, Inwi	Significant state-ownership of the main telecoms companies, despite the planned sale of 8% of the government's stake in Maroc Telecom
Logistics	APM Terminals, Eurogate, ONCF, Royal Air Maroc	Booming manufacturing, tourism and export sectors will create significant opportunities for logistics firms in the port, road, rail and airline sectors
Retail	Carrefour, Coté Marché Costcutter	Opportunities for foreign retail firms is limited by Rawaj Vision 2020, which prioritises the creation of domestic national champions and support of itinerant traders
Renewable Energy	Droben Maroc, Cleanergy Maroc, Delattre Levivier Maroc (DLM), Delta Holding, Jet Alu Maroc	Strongest opportunities are in the solar, wind, and transmission and distribution sectors
Tourism	Hilton, Hyatt, Marriott	Tourism arrivals have rebounded strongly since 2017. Growth in tourists from China is likely to be particularly strong

Source: Ministère du Commerce et de l'Économie Numérique

1. EXPORT-ORIENTATED MANUFACTURING

Robust growth in higher-value-added exports, including automobiles, electrical machinery and aerospace parts, will ensure that Morocco continues to develop as a manufacturing export hub over the coming years. Integration into EU supply chains has seen the kingdom move up the value chain from a traditional focus on low-skilled textile exports to higher-tech industries. As a result – and partly due to strong competition from South-east Asian producers, including Vietnam, Bangladesh and Myanmar – textiles exports, which are dominated by apparel and clothing, have collapsed as a percentage of total exports from one-quarter to less than 15% over the past decade.

Although subdued economic growth in the EU will cap manufacturing export growth in the near term, given that 70% of manufacturing exports went to the EU in 2018,⁶ we expect diversification of trade ties in the years ahead. For instance, the new Mohammed VI Tangier Tech City, which was jointly developed with China, should attract Chinese manufacturers in a variety of industries.⁷



The Mohammed VI Tangier Tech City will be the flagship manufacturing hub over the next decade. In July 2019 China Communications Construction Company (CCCC) and China Road and Bridge Corporation (CRBC) began construction on the development, which the Moroccan government hopes will attract \$10bn in investment and create over 100,000 jobs by 2030. The tech city will eventually cover 2,000 hectares and offer tax incentives to companies operating in food, automotive, aerospace, renewable energy, chemical and textile industries. The city will also benefit from further expansion of the nearby Port of Tanger Med.⁸

⁶ International Trade Centre, 2019

⁷ "Guide to Chinese Private Investment in Africa" report, International Trade Centre, Nov 2018

⁸ Ministry of Industry website

1.1 Established and emerging high-value-added industries

Automobile shipments expanded by **39%** per year in 2009-18

The most impressive opportunities for manufacturing investors over the next five years will be in automobiles, electrical machinery and aerospace parts.

AUTOMOTIVES: This sector has spearheaded the emergence of value-added manufacturing exports over the past decade. Automobile shipments grew at an average annual rate of 39% in 2009-18 from \$224m in 2009 to \$3.9bn in 2018. The sector as a whole, including parts and accessories, is the largest export category and accounted for \$6.9bn in 2018.⁹ Although growth in the production of automobiles and parts will slow in the coming years as the industry matures, the growth outlook remains positive. Automobile exports should overtake textile exports to become the second-largest manufacturing export category after electrical machinery by 2020.

Major European car brands, including Renault and PSA Peugeot Citroen have committed to continued investment in the coming years. Having entered the market in 2015, PSA plans to invest \$600m in its Kenitra plant, which was inaugurated in mid-2019 and is intended to realise annual production of 200,000 units by 2020. While European carmakers have dominated investments, Ford, Nissan and Russian trucks and engines manufacturer Kamaz have also been active, turning Morocco into the most dynamic automobile manufacturing market in the MENA region.

As a result of hosting production facilities for some of the largest international car companies, Morocco presents an increasingly attractive opportunity for suppliers of industry parts and services. For instance, the PSA group alone spent around \$1.0bn on local suppliers in 2018. Both local and international parts suppliers have been prominent in creating production ecosystems in automotive wiring, interior and seats, metal pressing, batteries, HGV bodywork, motors and transmission.¹⁰

Continued improvement in logistics links between Morocco and the EU automobile supply chain will encourage continued foreign investment in the sector. Most notably, improvement to the Tanger Med port will service Tangier's automobile production hub. Renault produced just over 400,000 cars in Morocco in 2018, with about 320,000 delivered by the Tangier plant.¹¹

ELECTRICAL MACHINERY: Manufacturers in this sector will benefit from strong domestic and export demand. On the domestic front, demand for electrical transmission equipment will be driven by utility-level investment to integrate rising intermittent renewable energy supply into both the national and European grids. Meanwhile, growth in domestic automotive, railway and aerospace production supply chains will create derived demand for a wider variety of electrical products. This will enable domestic manufacturers of electrical machinery to diversify from a current reliance on insulated wires and cables, and electrical distribution equipment.

In terms of exports, government strategy for the sector explicitly targets the EU market. While economic growth in the EU will be subdued in the coming years, growth in

⁹ International Trade Centre, 2019

¹⁰ Ministry of Industry, 2019

¹¹ Company annual report

demand for high-tech products and services relating to energy efficiency, electric vehicle infrastructure, security and renewable energy will boost demand in the region for a variety of electrical components.

AEROSPACE PARTS: This is a particularly fast-growing, high-value-added export sector, albeit still small compared to autos and electrical machinery. Government figures suggest the sector has grown from three to 140 enterprises between 1999 and 2019, to now include Boeing, Bombardier, Stelia and Figeac. Although Bombardier has announced plans to sell its Moroccan operations, US firm Spirit AeroSystems appears likely to acquire the facilities. The entry of foreign firms is helping to create an integrated supply chain in the country. Overall, the state aims to attract 120 additional companies into the aerospace sector by 2021.

2. RENEWABLE ENERGY

By 2030 the government is aiming for an installed renewables capacity of **10 GW**

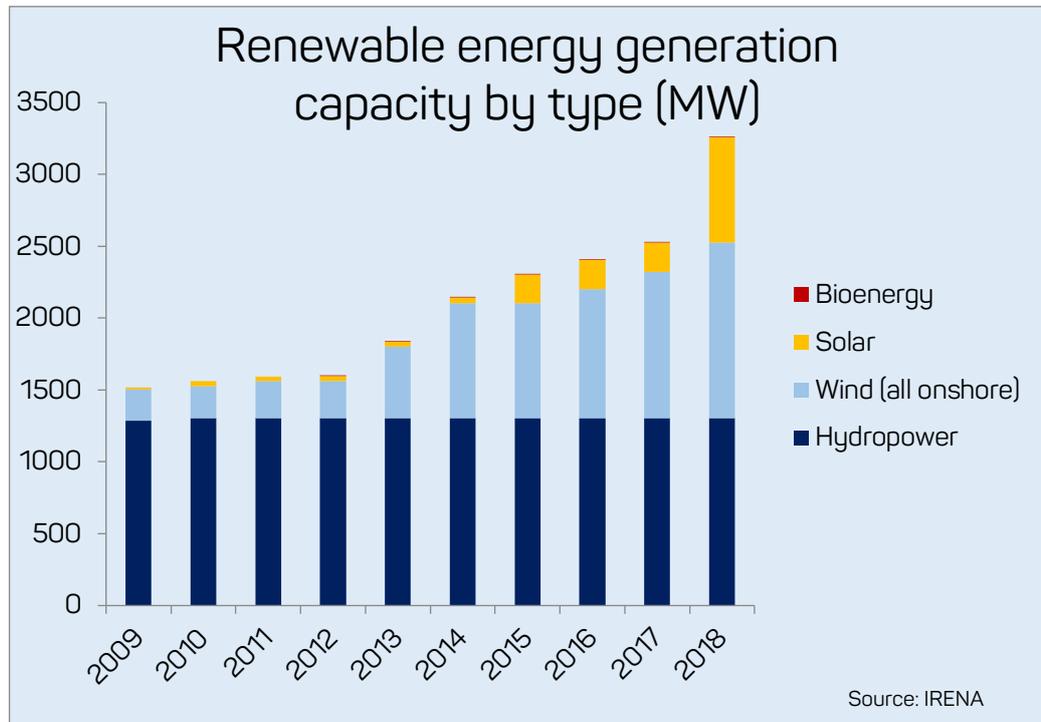
Major investment in renewable energy capacity will create significant opportunities in the wind, solar, and transmission and distribution sectors. In 2009 the government set an ambitious target of producing 42% of electricity from renewable sources by 2020. This goal was later extended to 52% by 2030, from sources including hydropower.¹² Overall, it expects to have an installed renewable energy capacity base of 10 GW by 2030, primarily made up from wind and solar facilities. At the end of 2018 total installed capacity stood at just under 3.3 GW. Based on existing projects, the government expects to achieve total renewable generation capacity of 4,000 MW by 2020, compared to an estimated capacity of 2,500 MW in 2018.

While the majority of renewable energy produced over the next five years will be consumed domestically, there is considerable potential for a surge in exports over the long term. According to Moroccan renewable energy industry association FENELEC, one-third of renewable power generation is already exported.¹³ This share will rise, as Spain and Morocco agreed in February 2019 to construct a third power interconnector between the two countries under the Strait of Gibraltar. Enabling the export of surplus renewable generation to Europe will reduce the risk of domestic power oversupply and, consequently, boost the attractiveness of investing in new generation capacity.

¹² IRENA, 2019

¹³ FENELEC website, 2019

The flagship Noor Midelt 1 solar plant will have a total installed capacity of **800 MW**



Solar power has the greatest growth potential of the renewable energy sub-sectors, with the government currently prioritising five major projects. The flagship development is the 800-MW Noor Midelt 1 solar plant which, upon completion, will add the equivalent of two-thirds of the country’s total renewable energy capacity in 2018. A consortium led by French firm EDF Renewables, and including the UAE’s Masdar and Morocco’s Green Energy of Africa, are developing the project. Construction is expected to begin by the end of 2019 and first deliveries to the grid are scheduled for 2022. This project alone will involve an estimated \$800m of investment, which indicates the level of international interest in Morocco’s renewable energy sector.

There is also significant momentum in the wind sector. Italy’s Enel has announced plans to construct five wind farms worth a combined \$1.2bn, in partnership with Siemens. The plans encompass the Projet Eolien Integre complex and will begin construction with the 180-MW Midelt wind farm, which should be completed in 2020. Meanwhile, US start-up Soluna has acquired a 15,000-hectare site near the city of Dakhla, on which it plans to develop a \$2.5bn, 900-MW wind farm for powering blockchain technology. The project could run into difficulties however, as the site is located in the disputed territory in Western Sahara.

3. TOURISM

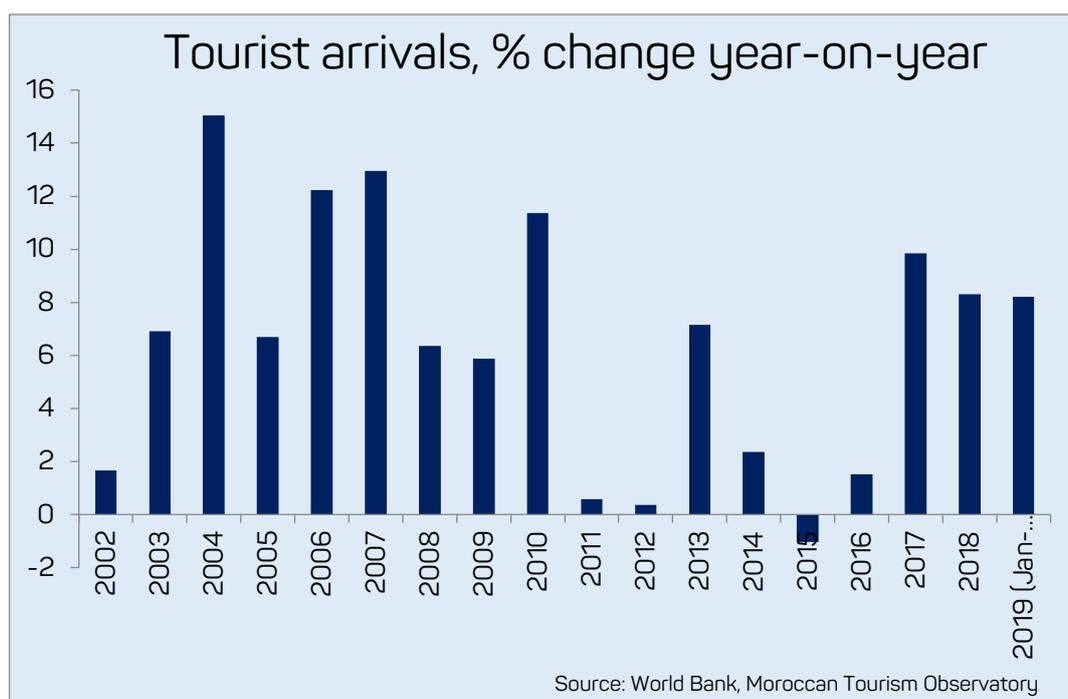
Following a slowdown in arrivals from traditional tourist markets, such as Europe and the US, in 2011-16 the kingdom’s tourism industry has regained momentum and is expected to see strong growth over the coming years.

Regional instability associated with the Arab Spring, which began in late-2010, and specific events, including the 2015 Sousse terrorist attack in neighbouring Tunisia, combined to curb the attractiveness of Morocco to foreign tourists. Growth in tourist

arrivals, which averaged 9.8% each year in 2006-10, slowed to 1.8% in the following six-year period.¹⁴

Improved perceptions of security in tourism destinations in the region has supported a recovery in visitors to Morocco and we expect this to continue. Growth in tourist arrivals has rebounded to average over 8% per year since 2017. Infrastructure improvements are supporting the attractiveness of Morocco as a destination, for instance through the recently completed ultra-high-speed railway line connecting Tangier and Casablanca, which was opened at the end 2018.

Although arrivals from European countries will continue to dominate, Chinese tourists will provide a particularly fast-growth opportunity in the next five years. Morocco began granting visas on arrival for Chinese citizens in 2016 and in September 2019 Ctrip, China's largest travel agency, signed a three-year agreement with the Moroccan National Tourist Office to promote trips to the kingdom. To capitalise on these developments, the national carrier Royal Air Maroc announced in September the same year that it will commence three weekly, direct flights between Casablanca and Beijing in January 2020. Chinese tourists accounted for around 1% of Morocco's tourist arrivals in 2018 and Ctrip expects this share to more than double by 2020.¹⁵



The government's Vision 2020 plan for tourism has several flagship programmes which aim to develop coastal areas and expand tourism offerings in business and events, sports and leisure, heritage, wellness and ecology, among others. Developing these areas will boost demand for transport and hospitality services in the country. In terms of travel services, the demise of UK travel group Thomas Cook in September 2019 will disrupt the tourist industry in the near term. Morocco's tourism federation has

¹⁴ World Bank, 2019

¹⁵ Morocco World News, 2019 (<https://www.moroccoworldnews.com/2019/09/282121/morocco-agreement-ctrip-chinese-tourists/>)

estimated that the company's closure will result in the loss of 100,000 tourism arrivals and cost local hotels \$20m in unpaid bills.

Looking beyond 2020, the demise of Thomas Cook will create room for new providers to fill the gap. Elsewhere in the hospitality industry, the luxury hotel pipeline is strong, with new resorts by Marriott's W Hotels, Hyatt, Barceló and Anantara planned for the coming years.

4. LOGISTICS SERVICES

Morocco's 2030 port strategy entails investment of **\$7.5bn** in upgrades and expansions

On the back of continued expansion of manufacturing, tourism and export sectors, significant opportunities will arise for logistics firms in the port, road, rail and airline sectors.

Logistics demand from the port sector will be particularly strong due to mushrooming export-orientated supply chains and significant port expansion. In reflection of the country's increasing integration with global supply chains, Morocco has already made significant gains in the UN's global Liner Shipping Connectivity Index over the past decade. The kingdom's 2030 port strategy aims to invest \$7.5bn in upgrading and expanding 27 ports.¹⁶ As part of the plans, the Port of Tanger Med opened additional capacity in June 2019 to make it the largest container port on either the African or Mediterranean coasts. The 6m-twenty-foot-equivalent-unit expansion more than doubled the port's previous capacity.

A significant share of Tanger Med port throughput will service the export-orientated manufacturing sector, a function that will grow more important as the \$10bn Mohammed VI Tangier Tech City is developed over the coming decade. Meanwhile a new \$1bn Nador West-Med port complex is being constructed along with a \$500m highway link, set to be completed by 2021. The Nador port complex on the Mediterranean coast will include deep-sea port facilities linked to a commercial, industrial and logistics centre in a free trade zone.



¹⁶ Export.gov, 2019

90%

Of Tanger Med's container arrivals were transiting to another country in 2018

The government also aims to increasingly position the Mediterranean ports as trans-shipment hubs for trade between Africa and Europe. For instance, 90% of Tanger Med's container arrivals were transiting to another country in 2018, with West Africa accounting for the largest share.¹⁷ European port operators currently dominate logistics services at Tanger Med, including APM Terminals and Eurogate, but increased capacity will create new opportunities.

To accommodate increased logistics demand, the government has put in place a long-term strategy – the Morocco Rail Plan 2040 – which entails \$37.5bn of planned investment in developing the national rail network and its various components.

Air transport is also developing steadily in line with the government's aim of developing the kingdom into an outward-facing business hub. The national carrier Royal Air Maroc has already expanded its flight network into Europe and Africa in order to better position Casablanca as a transit hub for African-bound businesses flying in from Europe and the US, and there are also plans to build a second airport in Marrakech with an annual capacity of 10m passengers.

¹⁷ Reuters, 2019 (<https://uk.reuters.com/article/us-morocco-economy-ports/moroccos-tangier-port-to-become-mediterraneans-largest-idUKKCN1TR2G0>)



III. FOREIGN ECONOMIC RELATIONS

1. AFRICA STRATEGY

As part of its economic development strategy, Morocco will continue to pursue closer political and economic ties with SSA. The kingdom's Industrial Acceleration Plan calls on firms to extend operations across Africa in order to develop Morocco's status as a gateway for international investment in the continent. King Mohammed VI has supported this strategy by making numerous official visits throughout the continent in recent years. More tangibly, Morocco rejoined the African Union after a 33-year hiatus and is attempting to join the Economic Community of West African States.

Moroccan FDI into SSA has already grown strongly in recent years. In 2017 investment from the kingdom into Africa as a whole grew by 39.7% to reach \$4.8bn, according to UNCTAD, with inflows directed towards sectors such as phosphates, banking, construction, telecoms and textiles. As of 2019 Morocco was the second-largest African investor in SSA after South Africa, with more than three-quarters of the kingdom's FDI going to the region, according to the African Development Bank.

1.1. Greater export opportunities on the continent

AfCFTA has removed tariffs on **90%** of goods traded between its signatories

Exports from the kingdom to SSA will be boosted both by faster economic growth in the region compared to traditional markets such as the EU and falling tariff barriers. The IMF forecasts real GDP growth in SSA will average 3.7% in 2019–23, compared to just 1.6% in the EU over the same period. Meanwhile the African Continental Free Trade Agreement (AfCFTA), which was launched in March 2018, removed tariffs on 90% of goods traded between its 44 signatories and aims to gradually eliminate non-tariff barriers on goods and services. UNCTAD estimates that the AfCFTA could boost intra-African trade by one-third once full tariff liberalisation is implemented.

At the same time, state-owned fertiliser giant OCP is leading industrial investments in the region in order to secure more direct access to consumers. Fertiliser use in SSA's agriculture sector significantly lags behind the global average and OCP is attempting to position itself for anticipated strong consumption growth in the coming years. The company has twelve subsidiaries in Africa and has investments planned in Ethiopia, Nigeria, Ghana, Côte d'Ivoire and Senegal. Most significantly, in 2016 OCP penned an agreement with the Ethiopian government to build a \$3.7bn phosphatic fertiliser complex in the country, with first production due in 2023–24. Progress on this project has been slow, however: an agreement to form Pan-African Fertiliser – a 50:50 joint venture between OCP and state-owned Ethiopian Chemical Industry Corporation – was not finalised until February 2019. Moreover, the viability of the project hinges on the rate of development of natural gas reserves in Ethiopia's Ogaden Basin.

In terms of services exports, Moroccan banks have moved into the vacuum left by the retreat of French banks from the region since 2008. The big three lenders, Attijariwafa Bank, DMCU and Banque Centrale Populaire have acquired banks in Senegal, Côte d'Ivoire and other West African markets, as well as in Egypt and Tunisia. With 499 branches in West Africa and 97 branches in Central Africa, one-third of Attijariwafa Bank's profits now stem from African markets other than Morocco.¹⁸

1.2 Securing raw material supplies

Closer political and trade integration with SSA will improve resource security for the industrial sector and the economy in general. The kingdom will also be better able to diversify its energy imports. Mineral fuel imports accounted for 17% of merchandise imports in 2018, with less than 1% sourced from SSA.

This looks set to change due to government interest in constructing infrastructure to facilitate imports of regional energy resources. Most eye-catchingly, Morocco and Nigeria agreed plans in June 2018 to construct a 5,700-km gas pipeline between the two countries. While the realisation of this \$20bn project is doubtful, a \$4.5bn liquefied natural gas import terminal should begin construction in 2020, with potential to tap into gas fields to be developed off the coast of Senegal.

¹⁸ Financial Times, 2019 (<https://www.ft.com/content/ed1b4cb8-fefe-11e8-b03f-bc62050f3c4e>)

Looking beyond energy, Morocco sourced over 90% of its mineral ore imports from SSA in 2018 and these will become increasingly essential to feed the kingdom's manufacturing sector. For instance, imports of cobalt ores from the Democratic Republic of the Congo and the Republic of the Congo to support the manufacture of electric vehicle components in Morocco surged to \$71m in 2018 from negligible levels previously.

1.3 Facilitating trade between Africa and the rest of the world

Closer trade, commercial and logistics ties with SSA will bolster Morocco's position as a hub for trade between Africa and the rest of the world. For instance, West Africa is already the largest trans-shipment destination for cargoes arriving at the Port of Tanger Med, while Moroccan banks will increasingly be able to provide services such as trade finance to firms in SSA. Moreover, Casablanca Finance City is being developed as a hub for international firms, providing a base for their regional headquarters and facilitating investment into SSA.

Top imports from sub-Saharan Africa, 2018			
Product	Imports, \$m	Share of total imports, %	Share of Morocco's total imports of that product, %
All products	391.6	100	0.8
Mineral ores	71.9	18.4	90.3
Mineral fuels	67.9	17.3	0.8
Coffee, tea, maté and spices	62	15.8	14.5
Animal feed	36.2	9.3	6.2
Wood and articles of wood	24.9	6.4	4.7
Aluminium and articles thereof	18.3	4.7	3.5
Vegetable saps and extracts	18.2	4.6	58.3
Edible fruit and nuts	12.1	3.1	3.8
Preparations of meat or fish	11.1	2.8	32

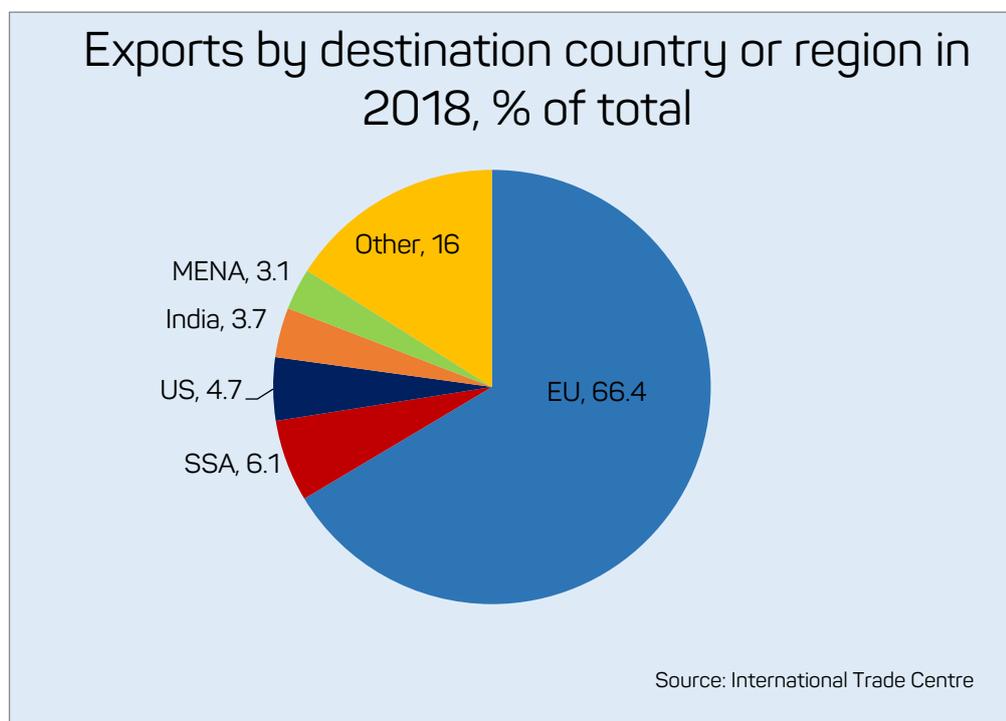
Source: International Trade Centre

1.4 Keeping Africa opportunities in perspective

90%
of Morocco's mineral ore imports came from SSA in 2018

As eye-catching as investments in SSA are, they will only have a modest impact on investment opportunities in Morocco, particularly for foreign firms. The scale of Moroccan investment in the region will continue to be dwarfed by the volume of investment flowing into Morocco itself. According to UNCTAD, FDI into the kingdom was more than five-times larger than Moroccan FDI abroad in 2018. Moreover, the main firms currently involved in Morocco's SSA investment are in the banking and fertiliser industries, which both have limits on foreign ownership. The Moroccan state has the right to limit foreign majority stakes in large national banks, while the fertiliser industry is monopolised by 95% state-owned OCP.

In terms of export potential, SSA will remain a minor export market for the kingdom despite strong growth in the coming years. Goods exports to SSA expanded by 5.7% per year in 2014–18, but lagged behind exports to the rest of the world, which saw growth of 6.3%. As a result, SSA Africa’s share of Moroccan goods exports stagnated at around 6% over the period, compared to the EU’s two-thirds share.



2. CHINA TIES DEEPENING

Morocco’s rising importance as a hub for north-south trade between Europe and Africa will underpin greater trade with, and investment from, China over the coming years.

In January 2018 the kingdom signed an agreement with China to establish a research institute to focus on ways to integrate the kingdom into China’s global Belt and Road Initiative (BRI). Following on from this, in March 2018 the governments agreed to explore \$14bn of investment in Morocco. Major investment is already underway, with CCCC and CRBC having begun construction of the Mohammed VI Tangier Tech City in July 2019.

2.1 Potential influx of Chinese firms

The combination of a fixed-investment-intensive growth model and closer political ties will likely boost Chinese investment in Morocco over the coming years. While memoranda of understanding have so far been more common than firm commitments to invest, this should gradually change in line with the trend displayed in many other industrialising developing economies since the announcement of the BRI in 2013.

The most significant near-term investments look set to be in engineering, procurement and construction services, with the largest example being CCCC and CRBC’s

involvement in developing the Mohammed VI Tangier Tech City. Final contracts for this project are expected to be signed in the coming months. Manufacturing and tourist-related firms will invest, as there is significant potential in these industries, although investment may be slow to materialise. For example, in 2016 it was announced that the largest Chinese electric vehicle producer, BYD, would construct a production facility in Tangier but as of late 2019 the investment had not been made.

2.2 Moroccan infrastructure to benefit

Greater Chinese investment in Morocco will likely expedite infrastructure investments over the coming years. The Mohammed VI Tangier Tech City is one example of how Chinese construction expertise can undertake large-scale infrastructure projects.

Admittedly, slowing economic growth in China will mean that provision of state-subsidised capital for Chinese infrastructure firms operating abroad will become more constrained in the coming years. There may be a shift away from concessional funding by the Chinese government towards private-led financing of projects. At the 2nd Belt and Road Forum in April 2019, the Chinese government indicated that it would be increasingly welcoming to foreign and private sources of financing, a move which would partially mitigate any project funding squeeze. To the degree that Chinese construction firms can replicate their existing presence in other BRI participant countries, improved infrastructure will benefit both domestic and foreign firms operating in the Morocco.

3. QATAR HELPING TO MITIGATE REDUCTION IN GULF INVESTMENT

Saudi Arabian FDI in Morocco fell from \$240m in 2012-16 to **\$53m** in 2018

Gulf investment in Morocco has been complicated by a conflict in foreign policy objectives between Rabat and its GCC allies.

In particular, prospects for Saudi Arabian and UAE investment in Morocco have waned since the diplomatic rift with Qatar escalated in the middle of 2017. Morocco resisted pressure from those GCC countries to cut its ties with Qatar, instead pursuing a neutral stance in the dispute. Saudi Arabia and the UAE had traditionally been the most significant investors in Morocco through a combination of direct investment and aid. Support for Morocco had ramped up following the 2011 Arab Spring, with GCC monarchs pledging a combined \$5bn of aid to support political stability in the country. FDI from the UAE into Morocco averaged \$530m per year in 2012-16, compared to \$350m per year over the previous five years. Average annual FDI from Saudi Arabia into Morocco stood at \$240m in 2012-16 compared to \$73m annually over the previous five years. Saudi Arabia's FDI was supplemented by government-to-government transfers, with Saudi Arabia in 2016 announcing plans to invest \$22bn to upgrade Morocco's military.¹⁹

Although the prospects for GCC investment into Morocco have cooled, inflows should remain significant. UAE FDI into Morocco declined following the deterioration of

¹⁹ Morocco Office Des Changes, 2019

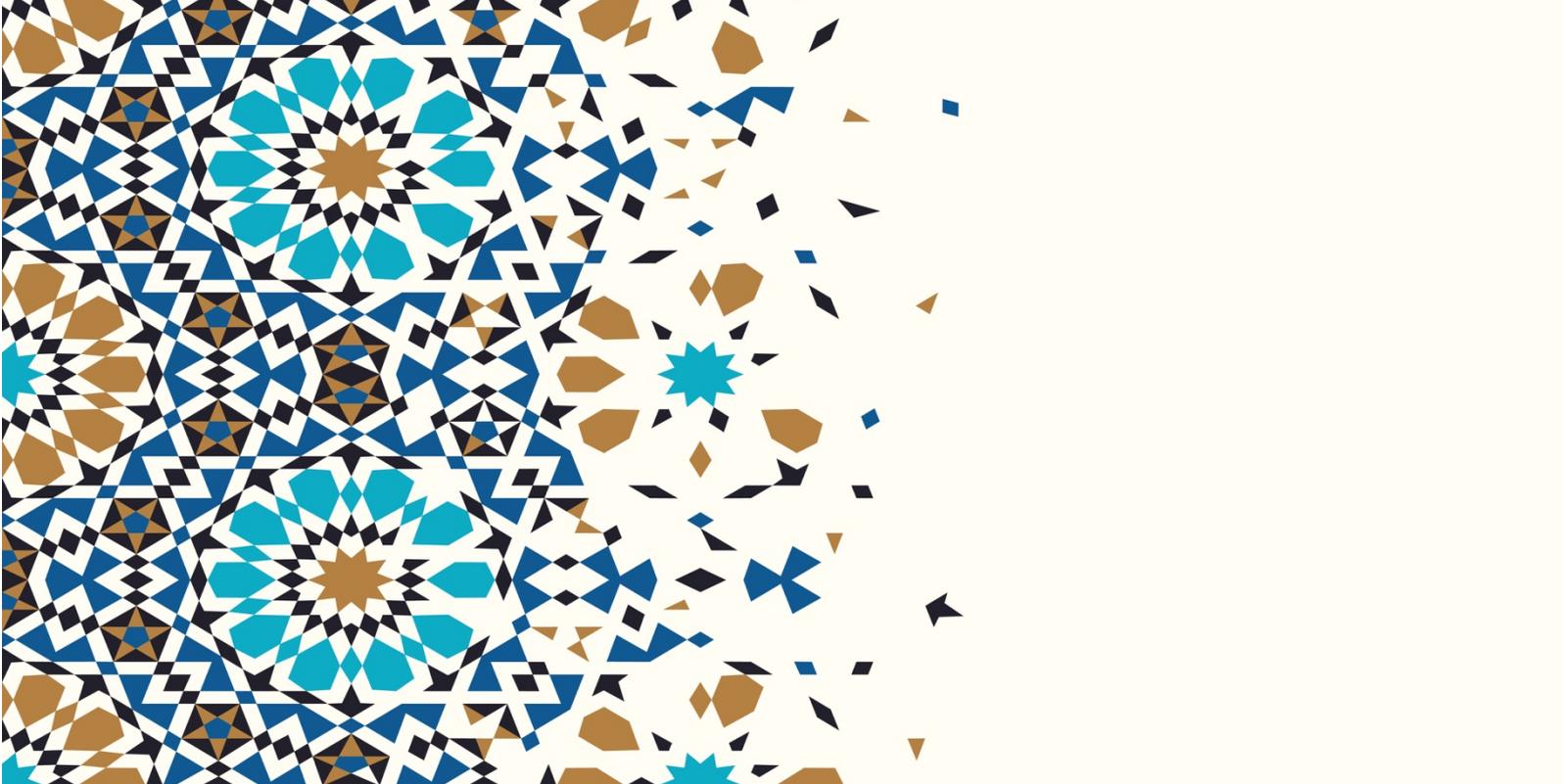
diplomatic relations between the two countries in mid-2017, but still reached almost \$400m in 2017 and 2018. Saudi FDI has fallen more dramatically, to only \$53m in 2018. Nonetheless, retaliation by GCC states against Morocco for its neutrality in the Qatar dispute has thus far been largely restricted to diplomacy and has not spilled over into the cancellation of major investments. For instance, Saudi Arabia's King Salman bin Abdulaziz Al Saud decided against holidaying in Morocco in 2018, and the kingdom reportedly lobbied against Morocco's 2026 Football World Cup bid in the same year. Despite the cooling of Saudi-Morocco relations since 2017, Saudi Arabia has continued to staunchly support Rabat's territorial claims over Western Sahara, most recently at the UN in October 2019.

FDI inflows from Qatar have tripled in recent years to

\$139m

Any decline in Gulf investment will at least be partially mitigated by growing ties between Morocco and Qatar. FDI inflows from Qatar more than tripled between 2013 and 2018 to \$139m, making the country the second-largest source of Gulf FDI into Morocco, accounting for 2.6% of total inflows in 2018, compared to 8.2% from the UAE.²⁰ Royal Air Maroc and Qatar Airways have commenced code-sharing on various West African routes, while some Qatari firms have begun using Morocco as a base to expand sharia-compliant banking in Africa. In terms of large projects, state-owned Qatar Petroleum is looking to develop gas reserves in Morocco in partnership with Eni.

²⁰ Morocco Office Des Changes, 2019



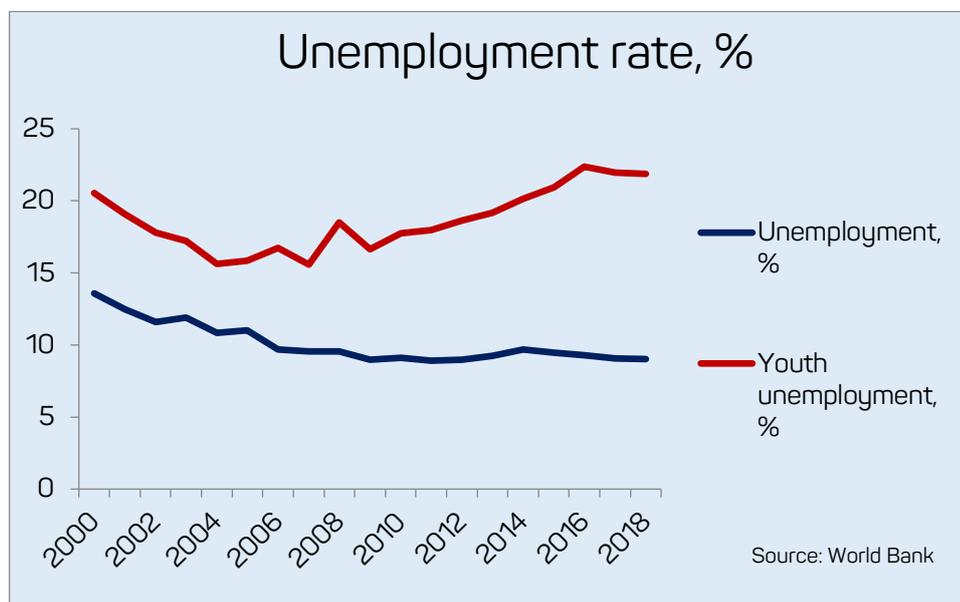
IV. KEY RISKS

1. SOCIAL UNREST AND PROTEST

Social unrest will remain a persistent risk to investment over the coming decade. A recurrence of the major street protests that accompanied the regional Arab Spring in 2011 could undermine prospects for the key industries. Tourism remains the most directly exposed to any deterioration in the security environment, as illustrated by the collapse of growth in tourist arrivals in 2011–16 in response to regional unrest. More broadly, FDI inflows in other sectors would slow if investor confidence was impaired. Policy continuity could also suffer if more populist policies were adopted. This could reverse pro-foreign investment policies, such as tax incentives and free trade agreements in favour of higher corporate taxes, greater labour protection and more stringent land development regulations for foreign firms.

Concerns over social unrest stem from the perceived disenfranchisement of segments of the economy. Despite impressive economic growth, rapid industrialisation and a major reduction in levels of poverty over the past decade, unemployment and inequality remain structural problems. Youth unemployment will be the main risk to social stability, particularly due to its concentration in urban areas. The World Bank estimates youth unemployment at 21.9% in 2018, compared to a national rate of 9%. Moreover, perceived corruption and distrust of segments of the business elite is widespread. A mass consumer boycott of domestic milk, water and petrol brands occurred in mid-2018 in order to highlight alleged monopolistic behaviour that was harming consumer

welfare. Although Morocco's score in Transparency International's Corruption Perceptions Index climbed to 43 (out of 100) in 2018 from 37 in 2012, the slow pace of this progress has supported a sense among much of the public of entrenched corruption.

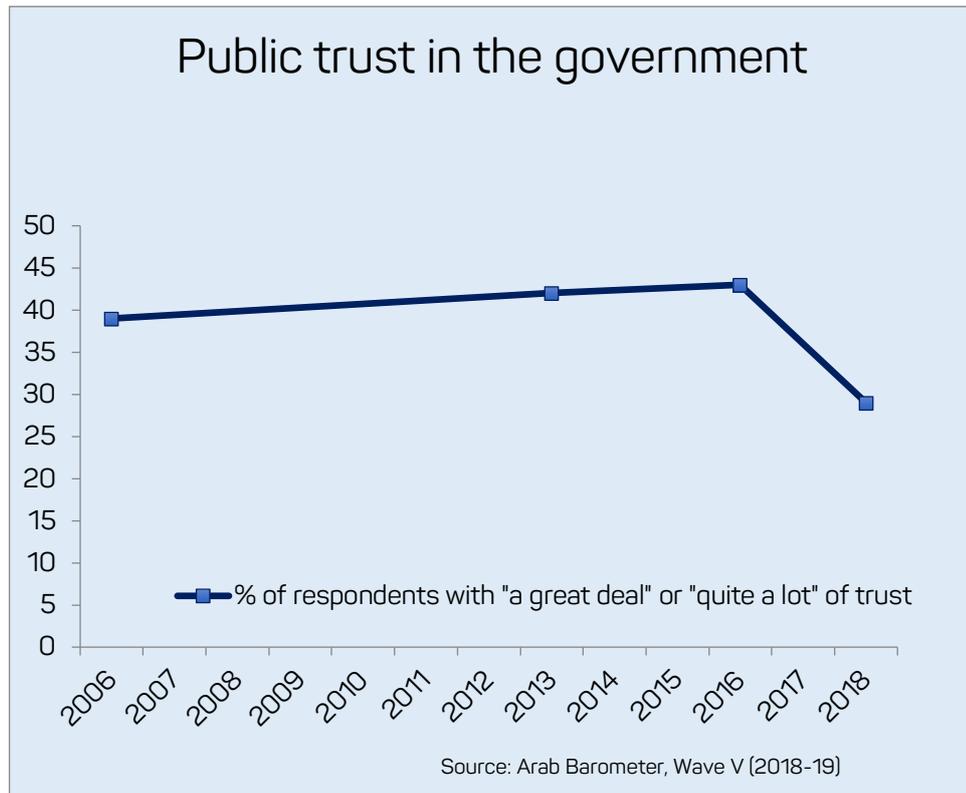


1.1 2020 elections and risk of upsurge in protest

A potential shift in power away from the Justice and Development Party (PJD) following the next general elections scheduled for October 2020 could crystallise the above frustrations into more significant public protest.

The PJD has led coalition governments in Morocco since 2011. Following constitutional reforms by the King in 2011, the PJD successfully pushed for gradually more devolution of the monarch's power. The perception of the PJD as a reforming force helped cement its position as the largest party in Parliament in the 2016 general election.

However, the outlook for the PJD in the 2020 election is mixed. A palace pushback against the PJD resulted in Prime Minister Abdelilah Benkirane being replaced by the less confrontational Saadeddine Othmani in 2017, which divided and weakened the PJD. According to research by Arab Barometer, public perception of government policy trajectory has since deteriorated, with trust in the government declining to the lowest in over a decade in 2018. The PJD suffered a further setback in October 2019, when the Party of Progress and Socialism pulled out of the governing coalition, having shared power with the PJD since 2011. Morocco's multiparty system has historically prevented any party from securing a majority in Parliament and thus a coalition government is the norm. Should the PJD fail to form a governing coalition following the 2020 elections, this could further reduce public confidence in government policy trajectory and thus stoke public protest.



1.2 But risks should remain contained

In 2019 the government launched a

financial inclusion strategy

for small businesses, youth and rural populations

The risk of a political shock destabilising the economy has thus far been mitigated by a series of reforms and tactical retreats by the government on issues that have been at the root cause of public protest.

King Mohammed VI enacted constitutional reforms to devolve some power from the monarchy following protests in 2011. Encouraged by the King, the government more recently launched a financial inclusion strategy in early 2019 in order to benefit underserved segments of the economy such as small businesses, the youth and rural populations.

The National Plan on Employment for 2017–21 is focussing on addressing youth unemployment, female participation and regional income differentials. Finally, the introduction of a social registry in 2019–20 is expected to enhance the delivery of social welfare programmes. This adaptive reform has been one way in which Morocco differs from other North African economies struggling with social unrest. Public protests such as in the northern region of the Rif in 2017 and the aforementioned consumer boycott in 2018 have thus been limited in scale compared to demonstrations in other MENA countries and have presented little risk to overall political stability. With this track record in mind, it is likely that the King would pressure the government to enact additional reforms should there be a significant uptick in public protest in 2020 and beyond, which should prevent protests from spiralling out of control.

2. OTHER IMPORTANT RISKS

2.1 Export demand disappoints (medium probability, high impact)

The EU accounted for two-thirds of total merchandise exports in 2018 and this leaves Morocco exposed to slower economic growth in the bloc. The IMF already forecasts subdued annual average real GDP growth of 1.6% in the EU in 2019–23 and there are downside risks to this scenario. In particular, US trade negotiations with the EU could weaken Moroccan exports in 2019–20. Should the US raise tariffs on EU autos imports, this would slow growth in EU automobile production and, by extension, exports of autos parts from Morocco to the EU.

2.2 Exposure to bad loans in SSA (medium probability, medium impact)

The increasing exposure of Moroccan banks to investments in SSA creates a potential channel of risk transmission. Should significant investments in the region underperform or need to be written off, this could curtail capital availability for firms operating in Morocco. It could also create contingent liabilities for the government in the banking sector, which could divert fiscal resources from other priority areas such as infrastructure development.

2.3 Upsurge in terrorism (low probability, high impact)

A perceived deterioration in Morocco's status as a relative safe haven in North Africa would be detrimental to both tourism and investment. However, there have been no major incidents since April 2011, when a café bombing killed 17, including a group of French students. The deadliest terrorist attack in Morocco's history occurred in May 2003, when suicide bombers killed 45 in Casablanca.

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