

# MOROCCO

## The Forecast, 2018

### Contents

#### DOMESTIC POLITICS AND POLICY

- Under-delivery will remain a key risk to implementing a reformist and social agenda in 2018

#### INTERNATIONAL AFFAIRS

- Outreach to Sub-Saharan Africa will remain an important foreign policy, partly motivated by the seemingly intractable conflict over Western Sahara

#### SECURITY

- Active security forces suggest that the terrorist threat is contained

#### ECONOMY, ENERGY AND OTHER SECTORS

- The exclusion of large groups of the population from Morocco's recent economic successes remains a key challenge for 2018
- Structural reform is unlikely in 2018

#### DOMESTIC POLITICS AND POLICY

### Under-delivery will remain a key risk to implementing a reformist and social agenda in 2018

The ability of the Moroccan establishment to deliver on its domestic promises will remain a central issue in 2018. There are concerns that the periodic culling of under-performing and, in some cases, corrupt public servants, will not necessarily result in the speedier delivery of large-scale reform programmes and social services in neglected regions.

In 2018, interactions between the Royal Palace, central and local government officials will continue to attract attention in the aftermath of King **Mohammed VI's** dismissal of four government ministers in October 2017 and a swathe of regional officials two months later.

The underlying risk of social unrest remains real. The northern Rif city of Al

Hoceima has dominated headlines from late 2016 following the death of a local fisherman in controversial circumstances, and remains a potential source of further unrest:

- Local protestors have expanded their demands for justice to focus on the non-completion of infrastructure investment and employment projects worth US\$670 million, promised by the king in October 2015.
- The protracted unrest has led to a blame game between local party officials and central government over who was responsible for blocking the regional development programme.
- An official enquiry instigated by King Mohammed VI revealed that, of 644 projects destined for the Al Hoceima region, only five had been completed and a further 45 embarked on by the end of 2016. Along with the removal of the serving ministers who have still to be replaced, previous post-holders were also retrospectively barred from holding public office.
- Civil unrest heightened in mid-2017 when over 100 journalists and members of the self-styled *Al Hirak* movement were arrested. Al Hirak's leader, **Nasser Zefzafi**, is currently on hunger strike whilst still undergoing trial in Casablanca.

Beyond Al Hoceima, in mid-December, the king also sacked one of his regional representatives (or Wali), six regional governors, and dozens of local officials in the wake of an enquiry that highlighted failings in the country's regional investment centres set up in 2002.

These moves are generally popular, but the Palace is more exposed when the king intervenes so directly in domestic politics. There are no immediate solutions in sight to a clientelist public service mindset that prevents officials, as well as party

politicians, from taking risks or assuming responsibility for taking action.

King Mohamed VI has long championed plans for a devolved regionalisation programme, which were encapsulated in the revised constitution of 2011. Delays in delivering on this, however, have not only drawn more attention to the scale of official corruption in Morocco, but also to the limited autonomy of Morocco's elected central government to push devolution and other initiatives forward.

As a result, the king and his immediate advisors, above all his closest confidant **Fouad Ali el-Himma**, may find themselves more exposed in the evolving blame game in 2018, not least since the political grouping most implicated in the Al Hoceima crisis, the Parti de l'Authenticité et de la Modernité (PAM or Party of Authenticity and Modernity), was founded and originally led by El Himma.

Morocco's Prime Minister, and former Foreign Minister, **Saadeddine el-Othmani**, has strengthened his own position at the head of the Parti de la justice et du développement, (PJD or Party of Justice and Democracy) after being elected as the party's Secretary-General in place of the former prime minister **Abdelilah Benkirane**.

Unlike the more independent-minded Benkirane – who resisted forming a government for six months following the PJD's narrow victory in the October 2016 general elections – the broad coalition of six parties currently keeping el-Othmani in power is widely seen as having been imposed on him when the king asked him to form a government in April 2017.

A more acquiescent government does not necessarily reflect the best strategy for making the difficult decisions, not least economic, Morocco faces in 2018, and has already raised questions about the future direction of democratic reform.

## INTERNATIONAL AFFAIRS

### Outreach to Sub-Saharan Africa will remain an important foreign policy, partly motivated by the seemingly intractable conflict over Western Sahara

King Mohamed VI will continue his strategy of repairing relations with individual European states – above all with France since the election of President **Emmanuel Macron** – after a 2016 European Court of Justice ruling prohibited goods exported from Western Sahara to be included in Morocco's Enhanced Status agreement.

The king's strategy, combined with new contracts with Chinese and other international investors in the context of promoting Morocco as a platform into Africa, have provided coherent, if incomplete, answers to the challenge of expanding Morocco's economic and diplomatic options.

The still-unresolved status of the Western Sahara – over which Morocco has claimed sovereignty since the mid-1970s – continues to act as a drag on external diplomatic energies and resources. This issue has little prospect of being resolved in 2018.

Moroccan diplomats are reported to be increasingly bullish about the issue, having successfully re-joined the African Union (AU) in January 2017 and received acceptance 'in principle' to membership of the Economic Community of West African States (ECOWAS). The Moroccan authorities appear to believe that winning over members of the UN General Assembly – via its neighbours in the AU and ECOWAS – will substitute for complying with the long-standing requirement of the UN Security Council (UNSC) that a political settlement be found to the international legal status of the Western Sahara. The later has to include a locally and internationally acceptable form of self-determination by the Sahrawi population.

However, Morocco's approach will continue to face headwinds in 2018:

- The Algerian authorities have few incentives to accede to Moroccan requests to re-open the border, nor to give up their long-standing support for the Saharan independence movement and its government-in-exile the Saharan Arab Democratic Republic (SADR). Morocco and Algeria remain locked in

a war of words. In October 2017, for example, Algeria's Foreign Minister Abdelkader Messahel accused Moroccan banks of laundering African drug money, suggesting that the Moroccan national airline 'transports more than passengers' on its African routes.

- A number of African states in which Morocco invests, such as Côte d'Ivoire, have come around to the Moroccan position, while others – notably South Africa – continue to champion the international representation of the SADR, including at the recent EU-AU summit held in Abidjan in early December 2017.
- Morocco's key international partners, including France and the US which are permanent members of the UNSC, will continue to skirt around the Saharan issue, in favour of the security, intelligence and commercial interests they enjoy with Morocco.

## SECURITY

### Active security forces suggest that the terrorist threat is contained

Government data suggests that the Moroccan security forces remain on top of the local recruitment of jihadists to Islamic State (IS) and other terrorist networks, and that local intelligence will limit further serious attacks on tourist sites within Morocco. By the end of 2017, Morocco's security services had reportedly intercepted and detained a total of nine terrorist networks, 186 terrorists and 20 jihadists returning to Morocco from conflict zones in Libya, Syria and Iraq.

However, the risk of domestic infiltration, particularly in areas of high unemployment and official neglect remains high, although notably not within the civil protest movement in Al Hoceima.

Morocco continues to deploy its considerable religious soft power into neighbouring conflict zones in the Sahel and West Africa, most prominently in the training of imams from Mali, Niger and beyond. The utility of Moroccan security know-how has paid off with partners such as France and the US, both militarily involved in the Sahel region, as well as with Spain in combining its counter-terrorist expertise with the control of migration and the financial and criminal networks associated with both.

Moroccan intelligence remains critical to resolving, and potentially pre-empting, terrorist attacks in Europe involving dual nationals of Moroccan descent. Despite having good insights into their communities abroad, the Moroccan authorities insist that the radicalisation of European nationals of Moroccan descent cannot be directly attributed to Morocco, when – as in the case of the Moroccan network behind the August 2017 attacks in and around Barcelona – most were born in Morocco but left for Spain in early childhood.

## ECONOMY, ENERGY AND OTHER SECTORS

### The exclusion of large groups of the population from Morocco's recent economic successes remains a key challenge for 2018

Morocco will remain a stable and relatively dynamic economic partner in 2018, but frustration about inequality, territorial imbalances and a sense of underachievement against its own vision of economic development will remain. King Mohamed VI admitted as much in a speech in October 2017, surprising many observers by saying that '*our national development model no longer responds to citizens' growing demands and pressing needs; it has not been able to reduce disparities between segments of the population, correct inter-regional imbalances or achieve social justice.*'

Morocco's exports continue to diversify faster than that of its neighbours, above all the hydrocarbon-dependent Algeria, which is now facing stiff competition from Morocco's overtures to Chinese investors.

- Morocco's success in attracting offshore automotive assembly plants now means that cars represent Morocco's largest export, with a production target of one million units over the next 10 years. By 2020, an estimated 20% of French cars are expected to be made in Morocco, through the expansion of agreements with Peugeot and Renault to invest more than US\$1 billion and create upwards of 50,000 jobs.
- The Chinese electric car manufacturer BYD has recently joined Samsung's plans to establish electric car plants, with a deal signed in the context of the China-Africa summit hosted by Morocco in November 2017 to establish a manufacturing plant in the

Tangier free zone. From there, as is the case with the goods manufactured in the French plants, exports will transit through Morocco's Tangier-Med container port to markets in Europe.

- Aerospace also remains a key sector for expansion, with plans to more than double existing jobs from 11,500 to 34,500 by 2020, and generate over US\$ 1.6 billion in new export revenue. Boeing, Bombardier, Airbus, Daher, Safran, Thales, UTC Aerospace Systems and Latécoère are already present in the market, with Thales seeking to establish a cyber-security centre in addition to the 3-D printing facility it opened last year in Casablanca.

In contrast, the slow development and integration in international value chains of Morocco's traditional subsistence sectors continues to offset the overall employment benefits of the manufacturing and hi-tech investments of recent years.

This affects above all the agriculture sector which employs 39% of the workforce but generates only 15% of exports compared to 12.5% for tourism, and 18% for phosphates.

Deep urban-rural divides remain, and while youth unemployment officially stands at 29%, a large informal sector means that outside the public sector, irregular and precarious working conditions are the norm.

Official growth rates are still highly influenced by the vagaries of the climate:

a bad harvest caused by drought in 2016 lowered Morocco's growth rate to 1.1%. Following an upturn in agriculture and a 6.5% increase in exports, growth is expected to recover to 4.4% for 2017.

With the lifting of inefficient public subsidies in recent years, Morocco's public debt (66% of GDP) and international reserves are likely to remain manageable into 2018, even if the public sector pay bill remains on an unsustainable upward trend – costing currently just under 12% of GDP.

Existing and upcoming investments in renewable energy also have a positive impact on the balance of payments, as Morocco currently imports 97% of its fossil fuel needs to generate electricity.

The plan under development is to substitute 42% of electricity generation with renewable sources by 2020, and 52% by 2030. Although ambitious, the Noor solar plant at Ouarzazate was inaugurated in February 2016, and another wind farm inaugurated in 2014 in Tarfaya, are already on track to be complemented by new wind turbines at Tangier and Essaoura and an expansion of the hydro-electric sector.

New transport links are also coming on line in 2018, with the planned opening of Morocco's – and Africa's – first high-speed rail line between Tangier and Kénitra by 2018. With business still concentrated in the 'golden triangle' of the capital Rabat-Casablanca-Fez, this rail link is due to cut the travel time between Casablanca and the new industrial hub of Tangier from under five hours to just over two hours.

## Structural reform is unlikely in 2018

The most immediate challenges for 2018 are three-fold:

- to accelerate the economic reform dynamic to encourage growth in the small- and medium- sized enterprise sector – above all services – beyond big-ticket and top-down investments;
- to increase public sector productivity whilst controlling public spending – above all in implementing long-stalled education sector reforms; and
- to rein in corruption at all levels. As a drain on productivity as well as fiscal deficits, this requires providing social safety nets for those constrained to working informally as well as tackling the entrenched advantages accruing to the parastatal conglomerates and family-run enterprises comprising Morocco's privileged elites.

Many of these challenges have proved politically intractable in the past which was largely because of the need for sustained leadership to face down Morocco's entrenched practices of 'crony capitalism'.

Broadening economic participation and access to credit, markets and land for new entrepreneurs is increasingly needed to ensure social stability. Given the fire-fighting approach adopted so far by the monarchy to respond to social unrest, 2018 is highly unlikely to be the year in which major structural reform takes place in Morocco.

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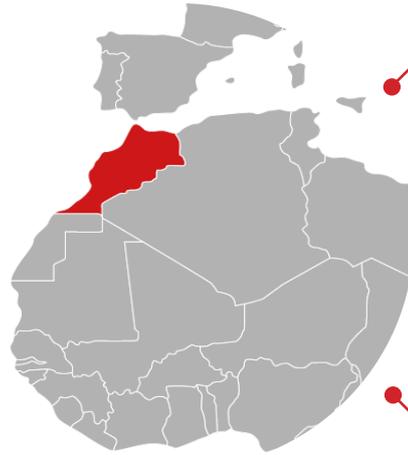
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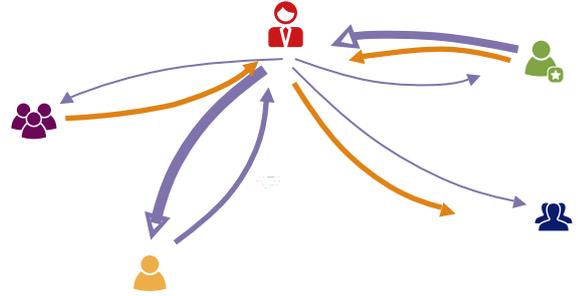
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