

**AFRICA RISK CONSULTING****Morocco Monthly Briefing October 2016**

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**Morocco Summary 12 October 2016**

*The incumbent moderate Islamist **Parti de la Justice et du Développement (PJD)** wins the most seats in Morocco's general election on 8 October. The PJD won 125 seats beating rival **Parti Authenticité et Modernité's (PAM)** 105 seats. The PJD now faces tough coalition talks to build the 198 seats needed for a functioning majority and may require up to four coalition partners to do so. The trade and industry ministry signs a major deal with United States (US)-based aerospace giant **Boeing** to establish an "industrial ecosystem" in a new special economic zone in Tangiers dedicated to supplying parts for its planes. **Attijariwafa Bank**, Morocco's largest commercial bank, completes the purchase of the operations of United Kingdom-based **Barclays Plc** in Egypt.*

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**PJD wins most seats in general election...**

The incumbent **Parti de la Justice et du Développement (PJD)** won the most seats in Morocco's general election on 8 October.<sup>1</sup> The victory confirms the success of prime minister **Abdelilah Benkirane's** (2011-present) first term, including controversial liberal economic reforms. **King Mohammed VI** (1999-present) invited Benkirane to his palace in economic capital **Casablanca** on 10 October where he appointed him prime minister and invited him to form a government.<sup>2</sup> The PJD won 125 of 395 available seats, giving it just short of 31% of the house.<sup>3</sup> This is an 18-seat increase from the 2011 general election, but still 73 seats short of an outright majority of 198.<sup>4</sup> The party faced fierce competition from rival monarchist **Parti Authenticité et Modernité (PAM)** that came second with 102 seats, a 55-seat increase from 2011.<sup>5</sup> All other parties lost seats to either the PJD or PAM. Former ruling monarchist party **Istiqlal** came third with 46 seats, 14 seats fewer than in 2011.<sup>6</sup> Centre-right former minority coalition partner the **Rassemblement National des Indépendants (RNI)** won 37 seats, 15 fewer than 2011; the liberal **Mouvement Populaire (MP)** lost 5 seats for a total of 27; and socialist **Union Socialiste des Forces Populaires (USFP)** lost 19 seats for a total of 20.<sup>7</sup>

Observers reported that the elections were free and fair. Human rights watchdog **Conseil National des Droits de l'Homme (CNDH)** oversaw the elections and found just 37 cases of attempted tampering.<sup>8</sup> However, CNDH chief of staff **Abderrazak El Hanouchi** expressed concern at the low turnout of 43%.<sup>9</sup> The government of **Belgium** offered public congratulations to Morocco for the electoral conduct.<sup>10</sup> Morocco had a history of alleged electoral manipulation prior to the 2011 elections, which was at its peak in the 1990s, that kept Islamist parties out of power.<sup>11</sup> Pro-democracy activists and PJD figures both spoke of fears of electoral manipulation keeping the party out of a

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<sup>1</sup> MPS, 10 Oct 2016.

<sup>2</sup> MPS, 10 Oct 2016.

<sup>3</sup> Middle East Eye, 11 Oct 2016.

<sup>4</sup> Middle East Eye, 11 Oct 2016.

<sup>5</sup> Middle East Eye, 11 Oct 2016.

<sup>6</sup> Middle East Eye, 11 Oct 2016.

<sup>7</sup> Middle East Eye, 11 Oct 2016.

<sup>8</sup> AFP, 8 Oct 2016.

<sup>9</sup> AFP, 8 Oct 2016.

<sup>10</sup> Reuters, 8 Oct 2016.

<sup>11</sup> FT, 8 Oct 2016.

second term during a highly acrimonious campaign.<sup>12</sup> However, the PJD victory demonstrates that moderate Islamism has entered the political mainstream. Benkirane told the media when the result came in that the PJD

*“...has proven that being serious and truthful ... and being faithful to institutions, especially the monarchy, is a winning currency”.*<sup>13</sup>

The government also feared that the election would be a target for violence. The interior ministry released a statement on 3 October saying it had arrested a 10-strong militant cell planning multiple bomb attacks for the general election.<sup>14</sup> The interior ministry said that officials from the **Bureau Central d'Investigation Judiciaire (BCIJ)**, the judicial arm of the domestic intelligence service, arrested 10 female suspects in the cities of **Kenitra** and **Tangier** with links to the **Islamic State (IS)**.<sup>15</sup>

### **...but faces tough negotiations to form coalition**

Benkirane and the PJD now face a difficult task to find the 73 allies necessary to form a government. PAM leader **Ilyas El Omari**, a former adviser to the king, has ruled out any coalition with the PJD.<sup>16</sup> The PAM campaigned strongly against the PJD, attacking its economic record as “*appalling*” and accusing it of “*Islamising*” society.<sup>17</sup> According to sources with links to the PJD:

*“The PAM ran a campaign of fear, attacking the PJD as the Islamist bogeyman...but the only Salafist candidate was from Istiqlal. They [the PAM] got their votes from people who are dissatisfied with the economy, or who preferred the old order where the PJD could never win.”*<sup>18</sup>

Sources with ties to the PAM argue that the approach is more tactical:

*“The PAM has managed to come from nothing to the second largest party in two election cycles. They are going to build for a victory in 2021 and gain nothing from joining with the PJD.”*<sup>19</sup>

The RNI is also unlikely to consider a PJD coalition – leader **Salehaddine Mezouar**, the former foreign minister, has publicly declared it has no interest in re-forming the pre-election alliance.<sup>20</sup> However, the RNI also said it would never ally with the PJD in 2011, yet joined a coalition in 2013. It is more likely that the PJD and Istiqlal will ally. They formed a coalition in 2011 that lasted until 2013 when it collapsed in a disagreement over economic policy.<sup>21</sup>

*“The PJD needs to form a coalition with either Istiqlal or the RNI – it will be difficult for them to have both as those two parties have an old rivalry dating back to the 1970s.”*<sup>22</sup>

However, the PJD and Istiqlal only have 171 seats between them – leaving them 27 seats short of a majority. This is exactly the number of seats that the MP holds. However, the MP is also reportedly unwilling to enter into an alliance with the PJD.<sup>23</sup> If the MP proves unwilling to join the coalition, the PJD may have to bring together four parties, including the seventh party, the **Union Constitutionnelle (UC)**, that holds 19 seats.<sup>24</sup> The UC are naturally aligned to the MP as another liberal party, but are more at odds with the palace as they are pushing for fewer powers for the king.<sup>25</sup> The talks are likely

<sup>12</sup> FT, 8 Oct 2016.

<sup>13</sup> Benkirane in MPS, 8 Oct 2016.

<sup>14</sup> Al-Arabiya, 3 Oct 2016.

<sup>15</sup> Al-Arabiya, 3 Oct 2016.

<sup>16</sup> North Africa Report, 9 Oct 2016.

<sup>17</sup> Middle East Eye, 11 Oct 2016.

<sup>18</sup> Source, PJD local organiser, Casablanca.

<sup>19</sup> Source, academic with ties to PAM leadership, Casablanca.

<sup>20</sup> North Africa Report, 9 Oct 2016.

<sup>21</sup> North Africa Report, 9 Oct 2016.

<sup>22</sup> Source, journalist, Casablanca.

<sup>23</sup> North Africa Report, 9 Oct 2016.

<sup>24</sup> North Africa Report, 9 Oct 2016.

<sup>25</sup> North Africa Report, 9 Oct 2016.

to take several weeks, and the PJD will need to offer attractive ministerial portfolios to bring allies on side.

*"It is going to be painful – the PJD may need to offer up both the finance ministry and foreign ministry to get enough people on side. They may have gained seats but not enough to make this a stable coalition. It is entirely possible that it will fail like it did in 2013."*<sup>26</sup>

### Morocco signs major 'industrial ecosystem' MoU with Boeing

The government of Morocco signed a major deal with **United States (US)**-based aerospace giant **Boeing** to establish an "industrial ecosystem" in a new special economic zone in Tangier on 27 September.<sup>27</sup> Morocco has established itself as a leading destination for aerospace and automobile companies over the last 10 years, by offering competitive tax incentives and government co-investment. Leading manufacturers are attracted to the country's proximity to the **European Union (EU)**, cheap labour costs and comparative political stability.<sup>28</sup> Trade and industry minister **Moulay Hafid Elalamy** and Boeing airplane chief executive and vice-chairman **Raymond Conner** signed a memorandum of understanding (MoU) outlining the scope of the project.<sup>29</sup> Boeing will bring 120 suppliers into the country, and establish an 'ecosystem' of parts manufacturers tied to a new integrated manufacturing hub for Boeing's airplanes.<sup>30</sup> The project will create 8,200 skilled jobs in Morocco and will generate an estimated \$1 billion in new exports.<sup>31</sup> Boeing has operated in Morocco since 2001 as the co-founder of **Morocco Aero-Technical Interconnect Systems (MATIS Aerospace)** that produces plants for Boeing planes at a plant in Casablanca.<sup>32</sup>

The trade ministry and Boeing have yet to release details of how they intend to attract the suppliers, or the cost of the project. However, a similar project with **France**-based automobile manufacturer **Peugeot** has already attracted over 30 companies to the country.<sup>33</sup> The aeronautics sector currently accounts for roughly 3.5% of Moroccan gross domestic product (GDP) and has exported \$590m in parts across the first half of 2016.<sup>34</sup> The sector has grown at an average of 7% per annum over the past five years.<sup>35</sup> The industrial growth is good news for Morocco's macro-economic picture, however some domestic sources are concerned the government is too focused on external investment:

*"We [Morocco] have become the outsourcing destination for **European and African** markets...the country is in need of so many jobs that nobody will scrutinise the terms of these agreements, but they could be more lucrative for Morocco if the government pushed harder."*<sup>36</sup>

### Attijariwafa Bank purchases Barclays Egypt operations

Morocco-based **Attijariwafa Bank** completed the purchase of the operations of **United Kingdom**-based **Barclays Plc** in **Egypt** on 4 October.<sup>37</sup> Moroccan banks have purchased numerous assets in **sub-Saharan Africa** over the past five years, but this represents a new trend in making major purchases in **North Africa**. Barclays, which announced the completion, did not give an official value for the transaction.<sup>38</sup> However, the international media cited sources that valued the business at

<sup>26</sup> Source, journalist, Casablanca.

<sup>27</sup> Boeing press release, 27 Sep 2016.

<sup>28</sup> Bloomberg, 27 Sep 2016.

<sup>29</sup> Boeing press release, 27 Sep 2016.

<sup>30</sup> Boeing press release, 27 Sep 2016.

<sup>31</sup> Boeing press release, 27 Sep 2016.

<sup>32</sup> Bloomberg, 27 Sep 2016.

<sup>33</sup> L'Economiste, 27 Sep 2016.

<sup>34</sup> L'Economiste, 27 Sep 2016.

<sup>35</sup> L'Economiste, 27 Sep 2016.

<sup>36</sup> Source, economist, Rabat.

<sup>37</sup> Guardian, 4 Oct 2016.

<sup>38</sup> Barclays press release, 4 Oct 2016.

\$400m.<sup>39</sup> **Barclays Bank Egypt** is a retail and corporate banking business that has 56 branches in 18 different cities across the country.<sup>40</sup> It employs roughly 1,500 people, and posted banking profits of \$170m in 2015 and net income of \$68m in the same year.<sup>41</sup> Regulators valued its total assets at \$2.27 billion and shareholder equity at \$380m on 31 December 2015.<sup>42</sup> Attijariwafa, Morocco's largest bank by market share, beat bids from **Saudi Arabia** and the **United Arab Emirates (UAE)** to buy the operation.<sup>43</sup> Barclays is in the process of selling off all its assets in Africa in order to refocus on Europe and the US.<sup>44</sup> The sale removes \$2.3 billion of risk-weighted assets from its debt portfolio.<sup>45</sup>

## Implications

The PJD has demonstrated that it is a serious and credible ruling party, not the anti-royal protest vote the party's electoral rivals made it out to be. It is likely the PJD's economic policies, which have put the country on a more stable economic footing, helped grow their share of the vote. No party can currently feasibly win a majority in Morocco; the electorate remains too divided amongst a number of parties with few discernable policy differences. However, the PAM has risen to show itself the new electoral force leaving Istiqlal in its wake. This dynamic may push Istiqlal closer to the PJD as an ally to retain its position – almost all of the seats it lost went to the PAM. However, the PAM has the power to handicap the PJD's coalition talks and force a minority government. This is unlikely but does increase the chance of coalitions failing during this parliamentary term. The free and fair elections will help improve Morocco's international reputation. Low turnout, however, shows that the populace still regards elections with a degree of cynicism following decades of palace-led rule under Istiqlal in the 1990s and early 2000s.

Morocco is seeking to replicate its success in the auto industry with the Boeing 'ecosystem' deal. These special economic zones are able to improve the broad macro-economic outlook. However, there are concerns that they lead to greater migration and proportionally fewer jobs for Moroccans. A number of domestic aeronautic companies that have supplied Boeing's Casablanca plant since it opened will be put under threat as the global market leaders get a better tax deal in Tangier. However, broadly this represents further diversification away from reliance on agriculture, and makes the economy more stable and resilient.

Attijariwafa's purchase of Barclays Egypt shows another strong element of the economy in action. The banking sector has moved its acquisition spree from sub-Saharan Africa to North Africa. It is likely that Attijariwafa and its rivals will start bidding for acquisitions beyond the continent – pushing into the **Middle East** and possibly beyond.

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<sup>39</sup> Guardian, 4 Oct 2016.

<sup>40</sup> FT, 4 Oct 2016.

<sup>41</sup> CPI Financial, 4 Oct 2016.

<sup>42</sup> CPI Financial, 4 Oct 2016.

<sup>43</sup> FT, 4 Oct 2016.

<sup>44</sup> FT, 4 Oct 2016.

<sup>45</sup> FT, 4 Oct 2016.

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### About Africa Risk Consulting:

**Africa Risk Consulting (ARC)** is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

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