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King Mohammed VI (1999-present) visits China at the invitation of premier Xi Jinping (2013-present) to sign a new strategic partnership between the two countries. The visit is a precursor to increased investment flows with the Banque Central Populaire (BCP) announcing \$122m in investments in China on 14 May. The ongoing region-wide drought hits the economy, increasing the trade deficit to 6.1% and unemployment to 9.9% as the agricultural sector loses 28,000 jobs. The United Nations Security Council (UNSC) extends the mandate of the Mission des Nations Unies pour l'organisation d'un référendum au Sahara occidental (MINURSO) (United Nations mission to organize a referendum in Western Sahara) for a further year. The Council demands that Morocco reinstate civilian employees but imposes no penalty for failing to do so. The Polisario Front (PF) warns that if Morocco drops its commitment for a referendum on Western Sahara it may restart its armed insurgency.

Mohammed VI visit to China leads to new strategic partnership and investments

King **Mohammed VI** (1999- present) visited **China** from 11-12 May.¹ The visit is a precursor to significant Chinese investment in Morocco and a strengthening of the ties between the two countries.² The visit, which came at the invitation of Chinese premier **Xi Jinping** (2013-present), launched a new strategic partnership between the two countries.³ Xi and Mohammed VI held several hours of talks, and signed a number of bilateral investment agreements.⁴ The visit shows Mohammed VI, and not the international relations ministry, leading Morocco's foreign policy:

*"The King has personally led Morocco's moves towards major non-western world powers since 2013 – the strategic partnership with **Russia** in 2015, now **China** and next **India**. The palace is the driving force behind all of them."*⁵

The two states will increase exchanges between heads of state, government leaders and officials; strengthen communication and coordination on strategic issues; and enhance cooperation and exchanges between legislative bodies and political parties.⁶ The talks reaffirmed the principle of respecting all countries' sovereignty and territorial integrity – important for the current tensions over **Western Sahara** (see below).⁷ Economically, China and Morocco will deepen cooperation in the areas of petroleum, mining, agriculture, environmental protection, ocean fisheries, infrastructure construction and digital communication.⁸ They will also expand cooperation in renewable energy, and develop partnerships in industry, metallurgy and electronics.⁹ Xi said China will participate in Morocco's industrial revitalisation and encouraged Chinese companies to fund local infrastructure

¹ Xinhua, 11 May 2016.

² Middle East Monitor, 11 May 2016.

³ Xinhua, 11 May 2016.

⁴ Xinhua, 11 May 2016.

⁵ Source, journalist with ties to the palace, Rabat

⁶ Xinhua, 11 May 2016.

⁷ Xinhua, 11 May 2016.

⁸ Xinhua, 11 May 2016.

⁹ Xinhua, 11 May 2016.

projects.¹⁰ Mohammed VI said that Morocco will increase military exchanges, tourism and educational cooperation and also announced the building of a Chinese cultural centre in the country.¹¹

The two countries proposed a free trade agreement in April as the first of a series of strategic trade and partnership agreements.¹² This visit is expected to move the negotiations on the free trade agreement forward.¹³ The new partnership reflects China's place as a growing trading partner of Morocco, as well as increased investment and tourism flows.¹⁴ Trade between the two has grown from \$1.8 billion in 2013 to \$2.3 billion in 2015.¹⁵ The **Bank of China** established a base of operations in **Casablanca** in March to aid Chinese companies investing in Morocco and francophone north and west Africa.¹⁶ The **Shandong Shangang Group** announced a \$150m deal to build a steel manufacturing plant in Morocco in February.¹⁷

Following the king's visit to China, the **Banque Centrale Populaire (BCP)** announced an investment of \$122m in a China-based company to manufacture new generation electric busses for use in Morocco.¹⁸ BCP signed the agreement on 14 May with Chinese industrial company **Yangxi and Energy Investment Company**.¹⁹ The details of the contract to manufacture the equipment are not available at time of writing. The BCP also agreed with its Chinese partner, the **Industrial and Commercial Bank of China (ICBC)**, to extend their joint funds for investing in businesses in Morocco and across **sub-Saharan Africa**.²⁰ BCP signed agreements with electronics and technology firm **Huawei** and tea manufacturing and export company **Bona**, the details of which are unknown.²¹ According to a local source:

*"This will be the first of a number of deals under the new partnership framework, we should expect greater Chinese activity in the business sector [in Morocco]."*²²

Trade deficit increases and unemployment rises as drought hits economy

Morocco's economic outlook for 2016 is less optimistic than that of 2015 due to a worse than average harvest forecast and regional drought which have increased the trade deficit and unemployment. The government projects that the cereal harvest will fall sharply from last year's record of 11m tonnes due to bad weather and expects more farm job losses in 2016.²³ The latest projections see the harvest falling to 3.3m tonnes, a 70% decrease.²⁴ State-run statistics agency the **Haut Commissariat du Plan (HCP)** released statistics on 5 May showing unemployment increased to 10% at the end of March.²⁵ Unemployment dropped marginally from 9.9% year-on-year.²⁶ The main reason for the increase in unemployment is the drought: the agricultural sector has shed 28,000 jobs over the year. Gains in employment in forestry and fishing managed to even out some of the losses in farming, which accounts for 15% of gross domestic product (GDP).²⁷

¹⁰ Xinhua, 11 May 2016.

¹¹ Xinhua, 11 May 2016.

¹² Morocco World News, 25 Apr 2016.

¹³ Morocco World News, 25 Apr 2016.

¹⁴ Middle East Monitor, 11 May 2016.

¹⁵ Alaraby, 19 May 2016.

¹⁶ Daily Sabat, 15 Mar 2016.

¹⁷ Ventures Africa, 12 Feb 2016.

¹⁸ Agence Maroc Presse, 14 May 2016.

¹⁹ Agence Maroc Presse, 14 May 2016.

²⁰ Agence Maroc Presse, 14 May 2016.

²¹ Agence Maroc Presse, 14 May 2016.

²² Source, business journalist, Casablanca

²³ L'Economiste, 5 May 2016.

²⁴ Morocco World News, 10 May 2016.

²⁵ HCP press release, 5 May 2016.

²⁶ HCP press release, 5 May 2016.

²⁷ L'Economiste, 5 May 2016.

Morocco's trade deficit rose 6.1% to \$5.5 billion in the first quarter of 2016.²⁸ The **Foreign Exchange Office** said the poor harvest has necessitated costly grain imports which increased 10.6% year on year from 2014 to 2015 to \$360m.²⁹ Equipment imports also rose 15.6% to \$3.55 billion, partly due to the need to import irrigation equipment to mitigate the effects of the drought and partly due to a spike in construction.³⁰ However, the energy bill – which was historically the largest public import expense – fell year on year by 25.6% to \$1.62 billion.³¹ Morocco remains the largest energy importer in the region, but the low price of oil continues to keep the overall trade deficit from spiking sharply.³² Morocco's export receipts have also helped to balance out the impact of the drought. Total exports rose by 3% year on year from 2014 to 2015 to \$7.93 billion; a 15% increase in auto exports was the primary driver.³³ However, revenues from phosphate sales fell by 6.6% to \$1.1 billion due to a lower than average production at the state-owned **Office Chérifien des Phosphates (OCP)** sites.³⁴ Tourism receipts increased by 6.2%, a testament to Morocco's relatively stable security outlook, especially compared to regional competitors **Tunisia** and **Egypt** that have both suffered multiple terrorist attacks in the past year.³⁵

Overall the economic picture remains positive, despite the challenges the drought presents. Morocco's current account deficit is down from 6.10% in 2013 to 1.9% in 2015 and the fiscal deficit to 4.3% in 2015 from 7.2% in 2012.³⁶ Foreign direct investment increased from \$3.2 billion in 2013 to \$4 billion in 2015.³⁷ According to local economic observers:

*"The economy is fundamentally still on the positive trend of 2015, however the drought and increased import costs will depress growth for 2016...[Despite this], the government has still drastically reduced public debt and increased investment."*³⁸

UN extends MINURSO mandate, but Morocco still in control on Western Sahara

The **United Nations (UN) Security Council** voted on 29 April to extend the mandate of the **Mission des Nations Unies pour l'organisation d'un référendum au Sahara occidental (MINURSO)** (United Nations Mission for the Referendum in Western Sahara) for a further year.³⁹ However, the consensus amongst international observers is that Morocco has managed to evict UN personnel (see *ARC Briefing Morocco April, March 2016*) with little consequence and the prospect of a referendum is now less likely.

*"Morocco has all the cards in the international community as they are a key ally in the war on terror and a major [European Union] EU trading partner."*⁴⁰

The **United States (US)** drafted a motion demanding that Morocco restore the MINURSO peacekeeping and referendum organising to full capacity.⁴¹ UN secretary general **Ban Ki-Moon**, whose comments on Morocco's "occupation" of Western Sahara sparked the dispute, will report back to the Security Council in 90 days on whether Morocco has complied with the order.⁴² However, the motion does not threaten Morocco with any punitive measures if MINURSO continues to be

²⁸ L'Economiste, 16 May 2016.

²⁹ L'Economiste, 16 May 2016.

³⁰ L'Economiste, 16 May 2016.

³¹ L'Economiste, 16 May 2016.

³² L'Economiste, 16 May 2016.

³³ L'Economiste, 16 May 2016.

³⁴ L'Economiste, 16 May 2016.

³⁵ L'Economiste, 16 May 2016.

³⁶ IMF, 4 Apr 2016.

³⁷ Santander market forecast, Jan 2016.

³⁸ Source, business journalist, Casablanca

³⁹ UN Press release, 29 Apr 2016.

⁴⁰ Source, regional security expert, Cairo

⁴¹ UN Press release, 29 Apr 2016.

⁴² UN Press release, 29 Apr 2016.

understaffed.⁴³ The motion passed with 10 votes, a low majority for the renewal of a peacekeeping mission.⁴⁴ Some Council members, notably **New Zealand**, talked to the press about their disappointment with the lack of strong language in the resolution.⁴⁵ The government of Morocco has said it will study the statement and is committed to ensuring the peacekeeping functionality of the mission.⁴⁶ According to a UN observer:

“Morocco has succeeded in neutering the resolution; the fact that the US took the lead on the drafting process and Russia and China didn’t push for amendments left the other members little room to manoeuvre... Morocco can now appear to comply with the ruling without letting the members of staff back in [who are] necessary to hold the referendum on Western Sahara.”⁴⁷

The **Polisario Front (PF)**, which claims to represent the government of the indigenous population of Western Sahara, warned on 26 April that a failure to conduct a referendum on sovereignty could lead to another war with Morocco.⁴⁸ The PF and Morocco have observed a ceasefire since 1991 on the grounds that the UN would organise a referendum to determine the sovereignty over the region.⁴⁹ The PF represents the **Sahrawi Arab Democratic Republic (SADR)** which operates as a government-in-exile based in neighbouring **Algeria**.⁵⁰ PF forces control roughly 25% of Western Sahara’s territory.⁵¹ **Bashir Mustafa Assayid**, the deputy secretary general of the PF, told journalists at a press conference in **Madrid (Spain)** on 26 April that the Security Council’s failure to organise a referendum since 1991 has led to the situation where an outbreak of war is now a possibility.⁵²

MINURSO originally scheduled a referendum for 1992 but it was postponed as the two sides disagreed over terms.⁵³ The process stalled until 2000 when the **Baker Plan** that UN special envoy **James Baker** proposed to the Security Council devised an option for semi-autonomy within the Moroccan state, which the PF rejected.⁵⁴ Since 2009 the UN has backed ten rounds of informal negotiations to resolve the issue.⁵⁵ MINURSO continues to operate a peace-keeping presence in Western Sahara, however **Jeffrey Feltman**, UN under secretary-general for political affairs, warned the media that they would not be able to operate effectively without civilian support staff.⁵⁶ The PF has gained considerable ground working through diplomatic channels since 1991. Striking the first military blow in a conflict with Morocco would not gather international support.⁵⁷

“It is unlikely that the PF will want to start a full scale campaign against Morocco; it does not serve their interests and they would be heavily outgunned...however, this creates the conditions for activists or breakaway groups to act – which could trigger wider instability.”⁵⁸

Implications

Morocco is expanding its political and economic influence by signing its new strategic partnership with China. It is no accident that the visit came just days after the UN Security Council voted on Western Sahara. By keeping China, the US and Russia on side, Morocco is able to avoid any major

⁴³ UN Press release, 29 Apr 2016.

⁴⁴ Reuters, 29 Apr 2016.

⁴⁵ Reuters, 29 Apr 2016.

⁴⁶ Reuters, 29 Apr 2016.

⁴⁷ Source UN, New York.

⁴⁸ Le Matin, 23 Apr 2016.

⁴⁹ Le Matin, 23 Apr 2016.

⁵⁰ Le Matin, 23 Apr 2016.

⁵¹ ISS, 26 Apr 2016.

⁵² Le Matin, 23 Apr 2016.

⁵³ ISS, 26 Apr 2016.

⁵⁴ ISS, 26 Apr 2016.

⁵⁵ ISS, 26 Apr 2016.

⁵⁶ MINURSO website, 2016.

⁵⁷ ISS, 26 Apr 2016.

⁵⁸ Source, regional security expert, Cairo.

repercussions from its desire to maintain control of Western Sahara. The new strategic partnership will see increased Chinese investment competing with traditional partners such as the **Gulf States** and the EU. Like the institutional investors of the Gulf States, Chinese investments will come with an expectation of business for China-based companies. The government is used to navigating such requests and the result will drive further growth through FDI inflows, although at the cost of some local jobs.

Growth in the industrial sectors is necessary for Morocco to move away from its reliance on the agricultural sector which accounts for 15% of GDP. The current drought shows the exposure of the country to weather patterns. The agricultural sector is still largely in the hands of small-holdings and lacks sophisticated irrigation infrastructure. The creation of other forms of employment through investment in industry could help increase the resilience of the economy in the long term. In the short term, however, the new figures could strike a blow to the ruling **Parti de la Justice et du Développement (PJD)** in the general elections in October. Polls show a failure to bring down unemployment is its primary perceived economic weakness.

The UN Security Council resolution upholds the idea of MINURSO, but has not given the mission or the UN secretariat any recourse to force Morocco to re-admit its civilian staff. It is likely that Morocco will allow some to return but not enough for the organisation to move forward with organising a referendum. The PF may threaten further military action but it will lose all the ground it has gained in the international community if it does so. The PF's primary political backer, Algeria, is in no financial position to support a proxy war in Western Sahara and will be mindful of Islamist groups taking advantage of any conflict that might happen. Morocco has managed to reduce the influence of MINURSO and the UN in Western Sahara making the prospect of a referendum even less likely.

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