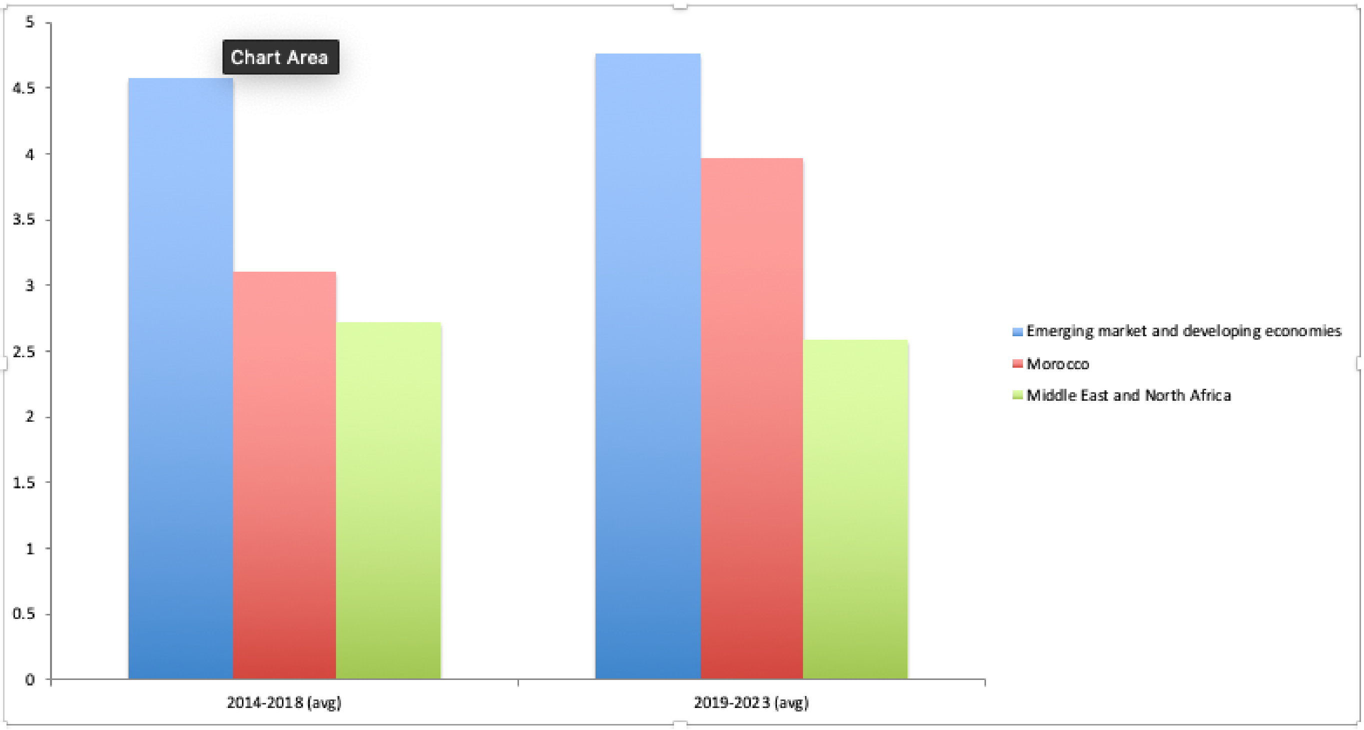
Morocco will be a bright spot for investment in the MENA region over the next five years. Opportunities will be underpinned by solid underlying economic growth and a competitive business environment. Three particularly promising areas are export-orientated manufacturing, renewable energy and tourism.

Positive backdrop for business expansion

Investment opportunities in Morocco will be supported by solid underlying economic growth and a competitive business environment. In terms of economic growth, the kingdom will remain a strong relative performer in the MENA region over the next five years. For instance, the IMF forecasts real GDP growth to average 4% annually over 2019-23. This would be an acceleration from 3.6% over the past five years and would see Morocco outpace average annual growth in the MENA region of 2.6% over the period.[1]



Real GDP Growth, % (Source: IMF)

In terms of the business environment, legal reforms and infrastructure investment have enabled businesses to exploit opportunities in Morocco over the past decade. In reflection of this, the country is ranked 60th globally in the World Bank's 2019 "Doing Business" report – the second highest ranking for a MENA country after the UAE (11th).

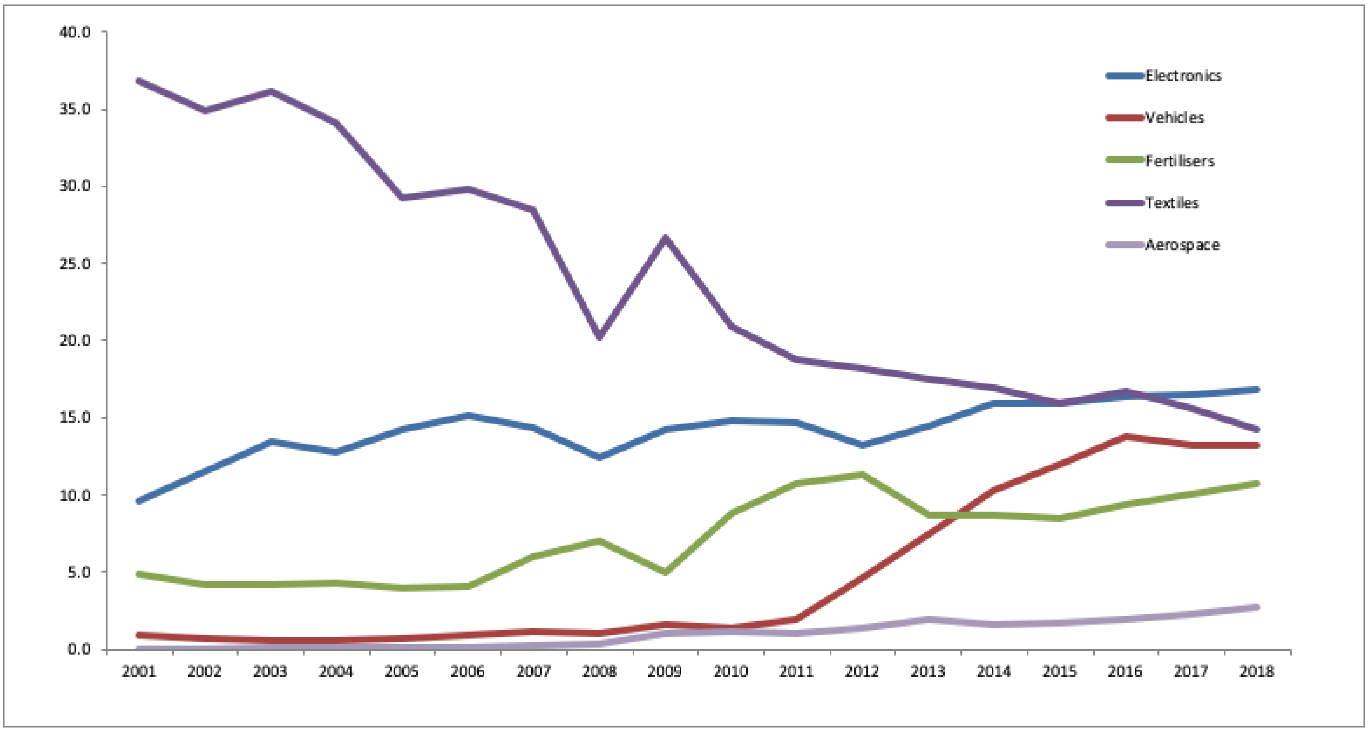
There is also little risk of a political shock destabilising this supportive economic backdrop. King Mohammed VI has steadily enacted liberal reforms since he ascended to the throne in 1999 and is widely regarded as Morocco's most liberal monarch to date. Although social discontent has occasionally manifested in public protests since the 2010 Arab Spring, these have been limited in scale compared to demonstrations in other MENA countries and have presented little risk to overall political stability.

Manufacturing exports to diversify

Morocco will continue 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. Over the past decade, textiles have collapsed as a percentage of total exports, while autos, electronics and aerospace parts have all grown strongly.

The most impressive opportunities for investment over the next five years will be in these latter industries. 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,[2] 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.[3]

The aerospace industry is a particularly fast-growing, high value-added export sector, albeit still small compared to autos and electronics. Government figures suggest that it has grown from three enterprises in 1999 to 140 in 2019. Notable players include Boeing, Stelia Aerospace and Figeac Aero. The state aims to attract 120 additional companies over the next two years.



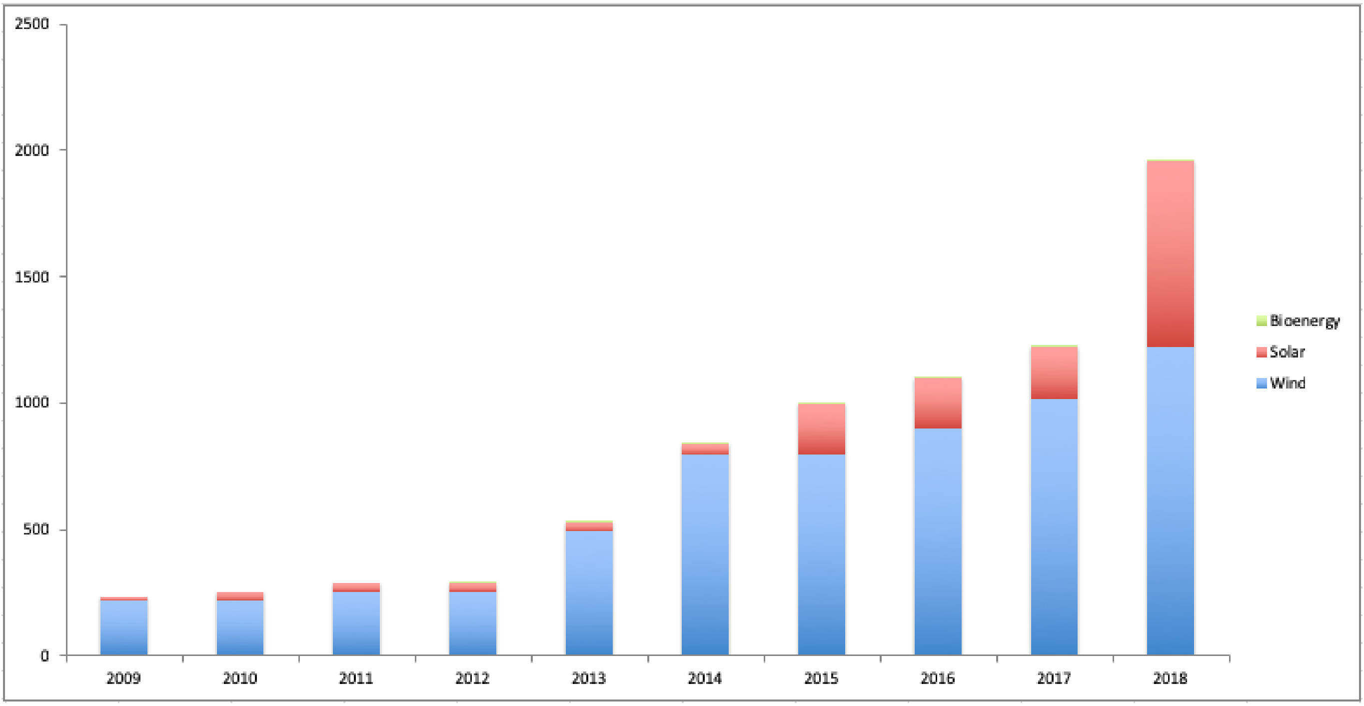
Select export categories, % of total goods exports (Source: International Trade Centre)

In terms of risks, US trade negotiations with the EU could weaken Moroccan exports over 2019-20. The US accounted for 7.2% of EU autos exports last year[4] and the White House will use this as leverage during negotiations. Should the US raise tariffs on EU autos imports, this would slow growth in EU autos production and, by extension, exports of autos parts from Morocco to the EU.

Renewable energy to forge ahead

Major investment in Morocco's renewable energy capacity will create opportunities in the wind, solar and transmission and distribution sectors. The government has an ambitious target to produce 42% of electricity from renewable sources by 2020 and 52% by 2030.[5]

Solar and wind projects will dominate the project pipeline over the next five years. One of the flagship projects under development is the 800-MW Noor Midelt 1 solar plant, which is equivalent to two-thirds of the country's total renewable energy capacity in 2018. A consortium led by French EDF Renewables won the tender, and is expected to begin construction later this year. This project alone will involve an estimated $800m of investment, which indicates the level of international interest in Morocco's renewable energy sector.

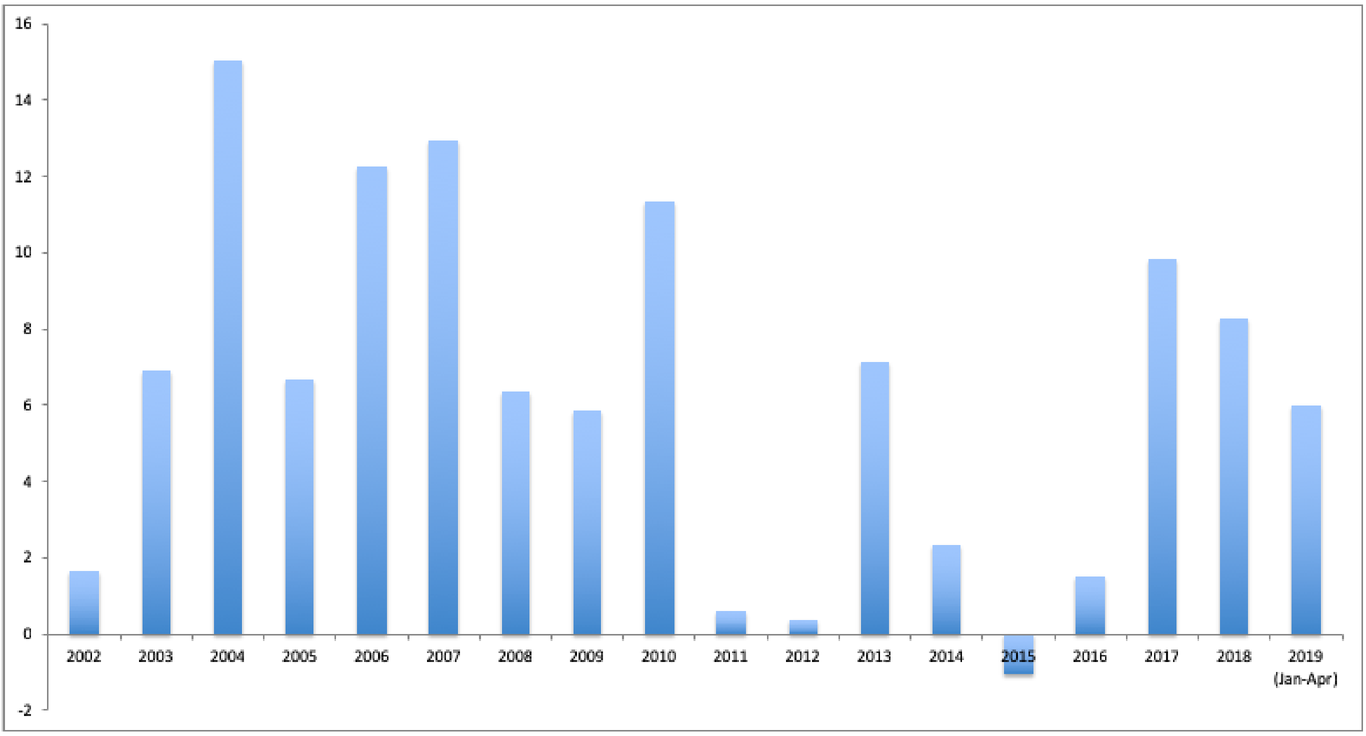


Renewable energy generation capacity by type (MW) (Source: IRENA)

Robust growth in renewable power generation will also create opportunities in related sectors. Major investment will be necessary in order to smoothly integrate intermittent renewable energy sources into the national grid. There is already momentum on this front, with Spain and Morocco agreeing in February this year to construct a third power interconnector between the two countries under the Strait of Gibraltar. Greater integration with the European power grid would encourage further renewables investment by enabling surplus generation to be exported to Europe.

Tourism rebound to have positive spillovers

The tourism industry will continue to rebound in the coming years as European perceptions of security risks in the MENA region stabilise. While geographically separate from instability in the wider MENA region over recent years, Morocco nonetheless experienced a slowdown in arrivals from traditional tourist markets such as Europe and the US over 2011-16. Tourist arrivals grew by an annual average of 9.8% in 2006-10 and this slowed to 1.8% during 2011-16.[6]



Tourist arrivals, % change year-on-year (Source: World Bank, Moroccan Tourism Observatory)

Improved stability in the Gulf over recent quarters has supported a more recent recovery in tourist arrivals into Morocco and we expect this to continue. Growth in tourist arrivals has rebounded to over 8% since 2017. An expanding tourism industry will boost demand for transport and hospitality services in the country. This will encourage investment in accommodation and transport infrastructure, such as that represented by Africa's first ultra-high-speed railway line connecting Tangier with Casablanca, which was opened at the end of last year.

John Davies is an economist and co-founder of research and analysis firm, North Shore Analysis. He has a special interest in emerging markets, global trade and heavy industry. Prior to North Shore, John *worked for nine years at BMI Research where he held positions including Global Strategist and Head of Commodities Research. He also has experience at the UK Treasury and PWC. John holds a BSc in Economics and Politics from the University of Bath and is completing an MSc in Economic History from the London School of Economics.*

Sources:

[1] IMF World Economic Outlook, April 2019

[2] International Trade Centre, 2019

[3] "Guide to Chinese Private Investment In Africa," International Trade Centre, November 2018

[4] International Trade Centre, 2019

[5] IRENA, 2019

[6] World Bank, 2019

