# Morocco continues its push into Africa

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Africa's self-styled "king of kings", Libya's late president Muammar Gaddafi, was once seen as the champion of fanciful pan-African schemes of forging the continent into a state by means of handouts and lavish construction projects.

Where Gaddafi's delusions failed, a different North African country may be poised to succeed with careful investment, the promotion of trade, active diplomacy and the deepening of transport links.

Feuds with its neighbours and unemployment at home have driven Morocco to look beyond Africa's Maghreb region to develop new markets.

The closure of the Algeria-Morocco border in the 1990s during the Algerian civil war and faltering relations with Libya due to Tripoli's support for Moroccan rebel movements meant Morocco had to venture further afield to jumpstart the economic prospects of its 36m people.

Frayed political ties and decades in the economic doldrums have rendered the countries of the Maghreb – Algeria, Morocco, Tunisia and Libya – the least integrated region in the world by trade volumes, according to Adel Hamaizia, a research fellow at the Chatham House Middle East and North Africa programme.

"Morocco has high unemployment and doesn't benefit from natural resources in the same way as neighbouring countries like Algeria and Libya. So it's important to create markets abroad that create jobs for its population at home," he says.

While Moroccan trade links to Europe are decades old, the capacity of Moroccan businesses to compete with European firms is limited. However, the fast-growing economies of West Africa offer big opportunities for Moroccan companies.

West Africa and Morocco's trade links stretch far back into history, given geographical proximity and the wide use of the French language.

But it was not until the last decade that Morocco ramped up its Africa investment strategy, with its monarch, King Mohammed VI, leading the way with a number of diplomatic and business initiatives. This renewed focus on the continent, along with a business-friendly regulatory environment and developing transport links, has led many commentators to describe the country as a "gateway to Africa".

Work had already been done on upgrading the country's transport infrastructure to exploit its strategic position at the nexus of Europe and Africa.

In addition to its port facilities in Casablanca, Morocco boasts a world-class facility at Tangier-Med, which is still being expanded. The port currently has weekly links to nearly 40 ports in West Africa.

Morocco has also redrawn its national airline strategy, expanding Royal Air Maroc's flight network into the region at competitive rates, and positioning Casablanca as a transit hub for African-bound businesses flying in from Europe and the US.

"This was one of the first foundations they put in place in order to enable what would come next," says Souhir Mzali, regional editor for Africa at the Oxford Business Group.

"They've made trade and investment much easier. As you can imagine Africa's not an easy place to take money in and out of.

Having the systems and infrastructure in place has really helped develop relations in the sub-region."

**Building a finance hub**

Moroccan banks also led the charge into Africa. In 2010 the government created Casablanca Finance City (CFC) with a mandate to tout the country as a regional financial hub and to act as a bridge between the economies of the north and south.

There are currently 19 banks operating in Morocco's banking sector with $133bn in assets in 2017.

Locally owned banks dominate the sector accounting for 82.3% of industry assets.

Following the global financial crisis, Moroccan financiers realised that the West would be a challenging market for expansion in the coming years.

"They saw potential in Africa, which lacked the means to add value to transform its vast rich resources into logistics and transportation networks.

"There was a lot missing where Morocco filled the gap," says Mzali.

The top three Moroccan banks, Attijariwafa Bank, DMCU, and Banque Centrale Populaire (BCP) bought banks in Senegal, Côte d'Ivoire and other West African markets, mainly from French companies who were retreating from the region.

With the help of the Rabat government's sprawling interpersonal and infrastructure connections, the banks accepted higher risks to reap greater returns in economies to the south.

One of Africa's best-known banks, Attijariwafa has branches in 10 African countries from Tunisia to Togo, and earns one-third of its profits from African markets outside Morocco.

The bank has 499 branches in West Africa and 97 branches in Central Africa.

The three top banks posted total profits of $280m from their subsidiaries across Africa in 2017, with activities focused on commercial and investment banking, lending to larger corporations, and acquisitions of domestic and international banks.

Driven by their commercial success in West Africa, they have now pivoted east, says Adel Hamaizia:

"In recent years they've started to look at other countries which are not Francophone. They're becoming quite busy in East Africa, investing heavily in Ethiopia for example, and planning a gas pipeline from Anglophone Nigeria to Morocco."

The African Development Bank estimates that 85% of Morocco's outward foreign direct investment (FDI) went to sub-Saharan Africa in 2016.

In 2017 Moroccan investment in Africa was $4.75bn, up from $3.4bn in 2016, according to the World Investment Report 2017 compiled by UNCTAD. Its portfolio of investments is wide-ranging and far-reaching, in sectors including phosphates, banking, construction, telecoms and consumer goods such as homegrown textiles.

As Moroccan trade in West Africa took off in the early 2010s, the kingdom quickly became one of the best performing economies in the Maghreb region. It grew at a pace of 3.1% in 2018 according to the IMF.

The country emerged as the continent's second most attractive investment destination in the 2018 Africa Investment Index (AII) compiled by Quantum Global Research Lab.

The rating was based on the size of its economy (the sixth largest in Africa), receptive business environment, low-risk profile, and strong social capital.

Morocco also ranked 60th out of 190 economies in the World Bank's Ease of Doing Business Index.

The success of Moroccan companies in Africa has also hinged on the ability of the king to cultivate close personal relationships with African rulers.

Following the downfall of Gaddafi, he revved up his charm offensive with marathon trade tours, often concluded with rafts of signed deals.

"Morocco has really done a great job at creating, fostering, nurturing those strategic links for its companies, which have a limited market in Morocco," says Hamaizia.

The push into Africa is set to continue, Zouhair Chorfi, Morocco's secretary general of the Ministry of Economy and Finance told *African Business* at a recent conference of African finance ministers in Marrakesh.

"At the beginning was a major investment movement in the financial sector, and activities in banking and the insurance sector. Gradually action has expanded to other sectors including telecommunications, building, a number of companies at the level of OCP (a fertiliser producer).

"It is a very rich experience. We have become one of the main investors in Africa, we are very satisfied with the regulatory and legal environment that exists in these countries that has given visibility to our operators and reassured them from the point of view of investment protection.

Therefore we are in a position to consolidate this dynamic of expanding to other countries. The wheels are in motion, and it will be pursued with mutual interest."

**Reform on the home front**

A big challenge for the domestic economy is how to make fiscal policy more equitable, due to gaping discrepancies between potential and actual revenue collection, says Mzali from Oxford Business Group.

Morocco's tax revenues declined somewhat in recent years, from almost 24% of GDP in 2012 to 21.5% in 2016, according to the Trade Law Centre (TRALAC).

"This comes down to a number of reasons, one being that over the years Morocco has tried to diversify its economy by investing heavily into developing all kinds of incentives and mechanisms to attract investment, in order to help diversify and develop all sectors," she explains.

As a result the government set up free-trade areas, many of which have tax exemptions.

However, this has contributed to distortions in the system – less than 1% of companies pay some 80% of corporation tax.

"The idea would be how to make the system fairer to get more people to engage with it," says Mzali.

"Like the rest of the continent, there's a lot of informal activity in Morocco and the challenge is how to integrate that activity into the formal economy, because that would generate good income in terms of taxation."

**Towards freer trade?**

As the continent turns a corner in regional trade with the implementation of the African Continental Free Trade Agreement (AfCFTA), Morocco's role in the new framework remains uncertain.

As A*frican Business* went to press Morocco had not yet endorsed the deal.

Having garnered the 22 ratifications needed for it to come into force, the AfCFTA will be a boon for the continent, where intra-regional trade accounts for only 17% of total exports, in comparison with 59% in Asia and 69% in Europe.

The agreement removes tariffs on 90% of goods traded between the agreement's 44 signatories, and will gradually eliminate other non-tariff barriers to trade in goods and services.

With 70% of Morocco's regional trade currently conducted through free trade agreements, Chorfi says it will not be "a huge challenge" to get it through parliament:

"The AfCFTA has been adopted but it requires the government to take action, and the parliament can't force the legislature's hand.

"Morocco does have a role to play in enforcing the AfCFTA, but there will not be a huge difference as currently 70% of Moroccan trade in Africa is through free-trade agreements, so it is already tariff free.