Report

GCC Sovereign Fund Investments in Morocco

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This report addresses some of the reasons why GCC sovereign funds have recently begun to increase investment in Morocco. It also deals with the link between the increasing investments and the offer for Morocco to join the Gulf Cooperative Council on one hand, and the domestic financial hardship on the other hand. Furthermore, it tackles the Moroccan economic sectors that attract GCC investments, which are no longer limited to the hospitality sector, but increasingly include others such as infrastructure and manufacture.

Needless to say, there are political and economic reasons behind the increasing number and quality of GCC investments in Morocco. A big leap was taken with Morocco's parliamentary elections in November 2011, paving the road for the Justice and Development Party to form a popularly elected government based on the demands of the Moroccan people in the referendum of July 2011. This approach revealed the desire of the GCC to contribute economically to a smooth democratic transition process in Morocco, unlike the case for other countries that were hit by the Arab Spring revolutions.

Morocco in 2020 Vision

During the historic parliamentary elections, Morocco's Tourism Investment Authority was established under the name "Wissal Capital", aiming to develop tourism, a fundamental sector in the Moroccan economy that contributes around ten percent of the GDP directly, and more indirectly through effects like visitors' spending – which positively impacts many economic sectors. Tourism is the most capable sector of bringing in hard currency with no competition from any other economic sector.

Wissal Capital was established through a partnership between the sovereign funds of Qatar, United Arab Emirates, Kuwait and Morocco aiming to invest around $2.5-4 billion (2) in tourism projects in Morocco, which has tourist attractions in various regions, especially coasts but also in non-coastal cities such as Marrakech. The involved institutions include Qatar Holding, Aabar Investments (Abu Dhabi Fund), Kuwait Generations Fund and the Moroccan Fund for Tourism Development. The invested funds are to achieve certain economic objectives within Vision 2020 such as developing public utilities, and thus enhancing economic growth and creating more jobs for citizens.

Vision 2020 focuses on attracting ten million tourists a year – compared to over 8 million at present – as well as making tourism the second largest economic sector after agriculture, which contributed about 17 percent of Morocco's GDP in 2010. (3) This became vital after the jolt that hit the tourism sector in 2011 as a repercussion of the Arab Spring, which struck the main tourist countries of the Arab world including Morocco. Conditions were exacerbated after the Marrakech bombing in April 2011, dealing a blow to the Moroccan tourism. (4)

The negative impacts of the Euro crisis also add up to Morocco’s problems, as Europeans have always constituted a significant percentage of the country's visitors owing to many factors like geographical proximity, mild climate, and cultural diversity.

According to the latest available statistics, Morocco attracted 4.2 million tourists in the first half of 2011,which is an increase of 6.3 percent from the same period in 2010. (5) However, the number of nights spent decreased by two percent as a direct result of the bombing in Marrakech.

Emphasizing the pioneering role of Qatar's investments in Morocco, the Emir of Qatar, Sheikh Hamad bin Khalifa Al Thani, witnessed the signing ceremony of four agreements between the two countries. The signing took place amidst the parliamentary elections, and the agreements included the establishment of a joint investment authority and a memorandum of understanding on cultural cooperation as well as a memorandum of cooperation. The importance of cooperation, which is mainly in favour of Morocco, was further stressed by another agreement to establish a joint investment fund worth two billion dollars aiming to finance major development projects in Morocco. (6)

In order to enhance the role of Qatari institutions in Morocco, a delegation from the Qatar International Islamic Bank (QIIC) visited Rabat and met the new prime minister, Abdullah Benkirane, and discussed with him the possibility of establishing an Islamic bank and an Islamic insurance company. (7)The visit reflected QIIC's extent of satisfaction with the Islamist leader's victory as the new prime minister in Morocco. It also showed the bank's willingness to participate in the development of Morocco's economy.

Financial Hardship

Figures on Wissal Capital on the one hand and the distinguished partnership between Morocco and Qatar on the other hand are vital for the Moroccan economy as it goes through a financial hardship that worsened in 2011 after authorities increased their support for strategic commodities, particularly food and energy, and raised the salaries of employees in the public sector to help them cope with the repercussions of the Arab Spring and try to persuade people not to take to the streets.

These steps caused a high fiscal deficit of around 5 percent of the GDP in the 2011 budget, which means there was no improvement from 2010. (8) The preliminary forecasts had predicted that the deficit would be around 3.5 percent, but the Arab Spring altered all calculations and pushed authorities to consider increasing public expenditure to preserve civil peace.

On the other hand, it is in Morocco's interest to maintain a degree of financial solvency, which improved in March 2011 when Standard & Poor's decided to raise the grade of the long-term sovereign debt solvency from BBB minus to BB plus, meaning investment grade plus a stable outlook. More importantly, Standard & Poor's decided not to reduce the credit grade after an elected Islamic party took over the government at the end of November 2011. (9)

Financing the deficit constitutes a challenge that cannot be overlooked as it affects the country's financial status. Morocco can certainly get loans directly or by issuing bonds, but that would result in increasing public debt, which, along with foreign debt and debts associated with government institutions that obtained banking facilities, comprises about 60 percent of GDP. (10) Morocco's total foreign debt was about $30 billion in mid-2011, i.e. half the overdue debt. Unquestionably, Moroccan authorities should pay back the capital and the debt service, which is a challenge to public finance.

The public sector can obtain banking facilities from many banks in the country that enjoy a high level of liquidity; but in that case, it will compete with the private sector over bank facilities, and that will lead to side effects like rising interest rates and thus inflation.

To address these difficulties, Morocco asked for economic help from GCC countries to overcome the emerging financial conditions. GCC sovereign funds achieved large surpluses as a direct result of high oil prices, which allowed them to invest part of those surpluses in the Moroccan economy. According to sources, the financial value of GCC sovereign funds may surpass the three-trillion-dollar mark. (11)

GCC economies in general are well able to provide assistance to Morocco. According to statistics, the Moroccan GDP at current prices was around $104 billion in 2010, and is higher than that if numbers are calculated according to purchasing power. Still, the number represents only about ten percent of the six GCC countries' GDP worth, namely a thousand billion dollars.

The Need for Investments

No doubt, Morocco needs to attract GCC investments to compensate for its limited ability to attract direct foreign investments, as stated in the World Investment Report 2011 by the UNCTAD. According to the report, direct investments in Morocco were $1304 million in 2010, which means that investments continued to shrink, as they were valued at $1952 million in 2009 and $2489 million in 2008. (12)

In comparison, in 2010, Saudi Arabia attracted $28.1 billion, the largest among all Arab countries and a number that is much higher than that of Morocco. Foreign investments are essential as they contribute to facing local economic challenges like developing infrastructure, enhancing competition in local market, and creating jobs for citizens. Long-term direct foreign investments are usually directed to building factories and real estates, which remain even if owners change. In brief, direct foreign investments are a good indicator of international investors' trust in a certain economy, taking future prospects into consideration. Nations compete in attracting foreign investments because of their role in solving economic problems.

Generally, GCC investments target the strengths of Morocco's economy, particularly areas related to tourism like building and developing hotels, resorts and apartments. In contrast, there are no significant GCC investments in Moroccan agriculture though there is a need for bridging the alimentary gap. According to a study by the British Economist, the food importation bill for the six GCC countries was estimated at $27 billion in 2011. (13)

GCC balance between investment in tourism or agriculture is a policy of wagering on the strengths of any economy. But although agriculture contributes about 17% of the GDP and provides about 44% of jobs in Morocco (14), dealing with such issues is not just about helping Morocco but also about Morocco's competitiveness and thus revenues. The Moroccan economy enjoys many competitive advantages in the hospitality sector such as tourist compounds, hotels, restaurants and other supplementary facilities like entertainment facilities. GCC countries are famous, of course, for investing in agriculture in countries like Egypt, Sudan and Pakistan – which is why all these issues have been mentioned.

The pumping of money by the Moroccan government into the agricultural sector is thus understood, as it is the first source for job opportunities. However, this is not the case for GCC investments which, in turn, looks for the best use of limited wealth. Surely, those investments are not grants to be given away, but are financial surpluses that seek best returns.

In addition, the Moroccan economy does not suffer from inflation; and provides another incentive for investment because the purchasing power of the invested money will not be affected. According to a study by the International Monetary Fund, inflation in Morocco amounted to about 1% in 2010 and 1.5% in 2011. (15) These low numbers are attributed to many factors, among which is the limited phenomenon of inflation importation related to local agricultural production.

Political Goals

GCC investments can contribute to the creation of jobs in Morocco. Unemployment is expected to worsen given demographic statistics. It is thought that though the official unemployment rate in Morocco is about ten percent, the economy suffers from disguised unemployment amid educated youth who take on jobs that do not suit their level of education. This means that the actual rate of unemployment is actually higher than the one announced. The best evidence of the lack of suitable jobs is the readiness shown by Moroccan youth to work abroad, especially in nearby European countries.

An unemployment crisis exists in Morocco, despite the limited number of people in the workforce. To be more specific, the national workforce amounts to approximately 12 million from a total population of 32 million, which means that over 38% of the population is working. The number is expected to increase in coming years as about 28% of population is below 14 years of age and will eventually enter the job market to look for suitable jobs.

However, the political reasons behind GCC countries' rush to invest large amounts of money in Morocco – and no other Maghreb country – cannot be overlooked. The reasons include the desire to make the Moroccan experience successful in the face of the Arab Spring revolutions. In a referendum held in early 2011, fundamental changes to the Moroccan constitution were approved and the moderate alternative to revolutions came to power. This was seen as in line with GCC aspirations, and perhaps the constitutional royalty, which was approved in the Moroccan referendum, will be a model for GCC countries amid the rapid changes of the Arab Spring.

Politically also, the semi-collective GCC move towards Morocco sends messages that joining in has benefits. (Notice the GCC decision to grant aids for Bahrain and Oman of $10 billion over 10 years with a view to address the political and security challenges that struck the two countries in 2011.) In May 2011, GCC countries invited Morocco and Jordan to join in, but Morocco was more interested in a strategic partnership like that of the Wissal Capital.

The 32nd GCC summit, held in Saudi Arabia in December 2011, emphasized granting economic aid to Morocco without full membership, which suits Moroccan ambitions. The GCC summit statement highlighted mutual cooperation, pointing out the creation of a $2.5-billion fund for the support of development projects in Morocco, and the same for Jordan.

In brief, investments and aid offered by the GCC prove that the Council is a reliable friend when it comes to economic aid for Morocco.

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