

Travels with a Donkey

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Whilst most investors and market participants are focussed on the forthcoming US Presidential election, a recent visit to Morocco prompted us to think about “Frontier” markets.

Investors have often been drawn to the exotic in search of opportunity and the expectation that returns on accelerated development should be high. We have talked about the “Advantages of Backwardness” in previous notes where, for example, emerging economies can jump straight to wireless communications without the intermediate need for – expensive to build and maintain – fixed copper lines.

Indeed, according to a recent report by the World Bank – 2024 Economic Monitor: Morocco, “Morocco’s unique advantages in terms of geographic location, trade agreements, renewable energy potential, and stable environment may be driving a fundamental shift in the country’s FDI (foreign direct investment) attraction.”

Certainly, driving through Marrakech there are swathes of hotel and property developments, often linked to golf courses as Morocco seeks to become a high-end but low-cost destination for the golfing community. Evidently, golf societies increasingly find that the traditional tours in Spain, Ireland and Portugal are becoming prohibitively expensive, and Morocco is seeking to grow its share of this part of the leisure industry.

Unsurprisingly, the flow of FDI to the country has caught the attention of Chinese authorities. Whilst the country is a long way from the traditional “Silk Roads”, Morocco has nonetheless become part of the Chinese “Belt and Road” initiative, exemplifying the determination of the Chinese to direct economic policy around the developing world to achieve greater geo-political influence and heft.

Foreign direct investment into the region jumped by a factor of 4 times from 2021 to 2023 with China responsible for 29% of those inflows. Although the EU, in aggregate, provided 53% of those inflows (after all, it was a French colony until 1956 and is barely 7 miles from Spain across the straits of Gibraltar), US engagement dropped to just 1% in the same period.

The so-called “energy transition,” also plays to one of Morocco’s obvious strengths: sunshine and lots of it. The country has one of the highest rates of solar insolation in the world with up to 3,600 hours of sunshine per year in the northern Sahara. The first Euro-African inter-connector of 900MW runs from Morocco to Spain. The new large solar plant at Ouarzazate will generate a further 600MW or so by 2030.

Interestingly, Ouarzazate is also home to the Moroccan film industry. Fans of Game of Thrones, Ironman and Lawrence of Arabia might like to know that much of the outdoor filming was conducted in the extensive studios that dot the region. The upcoming sequel to Gladiator was filmed at Eit Ben Haddou although as the guide rather disconsolately reported “Only the gates are real, the rest is CGI.”

There is clearly great international interest in these regions but there are still immense bottlenecks to further development.

Traffic: anyone who takes to the road is quite literally taking their life into their own hands. Speeding offences are taken extremely seriously but seemingly no other rules of the road apply.

Water: golf courses require immense amounts of water which is one commodity that the region simply does not possess. Indeed, as in Southern Spain, an ongoing drought has persisted for years which is damaging the agricultural sector as

much as the tourist.

Transport: outside the main cities, the principal heavy transport is done by the so-called “Berber Ferrari,” the donkey. Pack-animals are a common sight bearing bags of cement, loads of clay bricks and agricultural produce. Modernity and the mediaeval exist side by side in a fragile symbiosis.

The romantically named “Morocco Casablanca Stock Index” (MASI) peaked in 2008, having risen fivefold from 2003 and it has only recently reclaimed that peak. We are not suggesting that investors rush out and buy shares in Morocco Inc. but it is always interesting to note that there is more to the investment world than the major economies and indeed, that developments elsewhere may have lasting consequences closer to home, not least, in the decline of fossil fuels and in the rise of electrification.

These less watched economies may well develop quicker than currently expected should technological change allow them to leapfrog certain development hurdles. This is just one of the reasons we keep aim to keep an open mind to the changing world and although not invested in countries like Morocco today, these regions are important to monitor moving forward.

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