



Trade Facilitation in MENA: A Key to Competitiveness

Benefits of Trade Facilitation, Regional
Challenges



Key Regional Development Challenges: MENA countries need investment and productivity to grow and create jobs...

- **The region's economies need to create 80 to 100 million jobs by 2020. Unemployment is already high.**
- **Meeting this challenge requires an average GDP growth of 6-7 percent per year.**

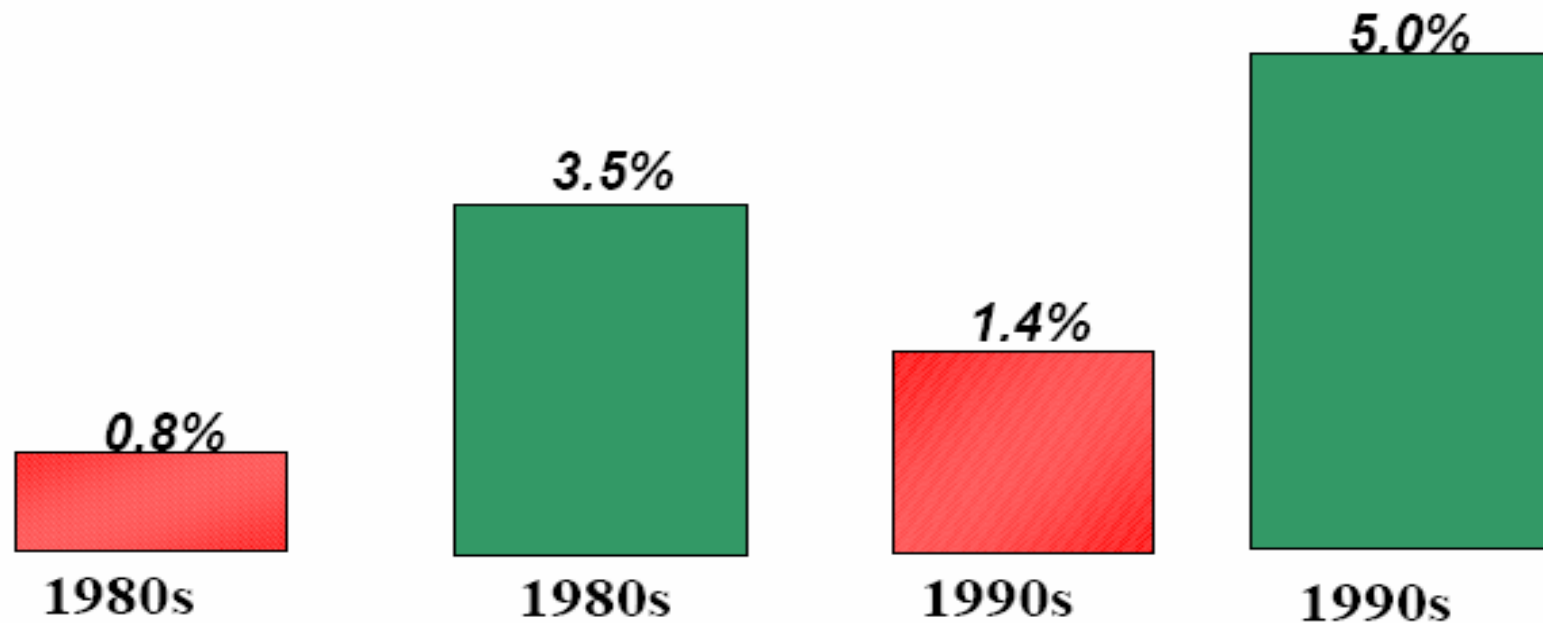
...and there is great potential for rapid growth

- **Non-oil exports are an estimated third of potential**
 - **Manufacturing exports are up to half of this potential.**
- **FDI is less than a fifth of what's possible.**
- **Domestic private investment is suppressed.**
- **MNA is strategically located**
 - **Possibility of rapid growth in trade, esp. with EU**
 - **Potential to link to global production chains**

Source: Trade, Investment and Development in MENA (World Bank)

Global integration generates growth and jobs...

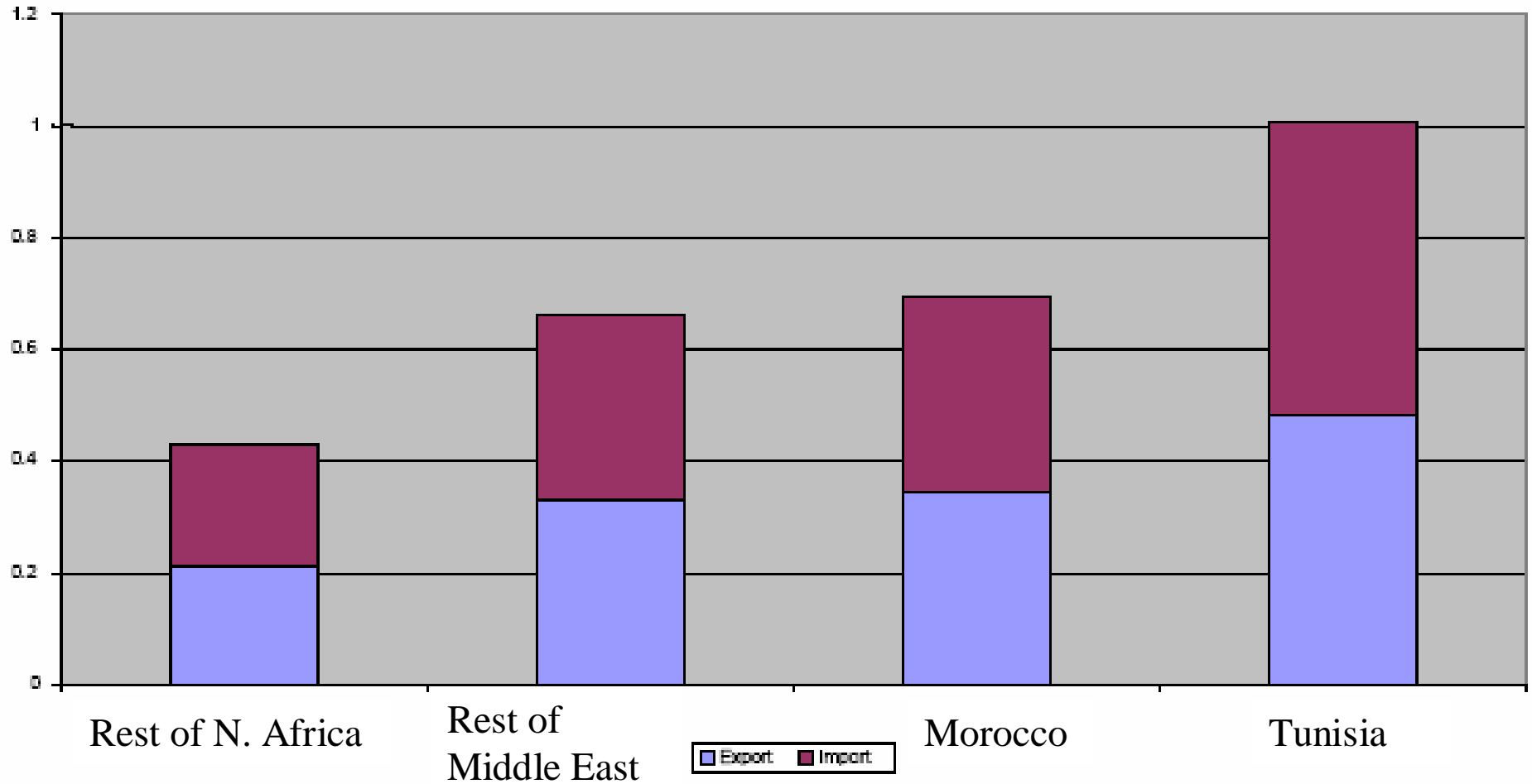
Per capita GDP growth rates of post-1980
non-integrators vs. **integrators**



Source: Dollar D. and A. Kraay 2003 "Institutions, Trade, and Growth: Revisiting the Evidence" World Bank Policy Research Working Paper 3004.

Trade is central to regional economies.

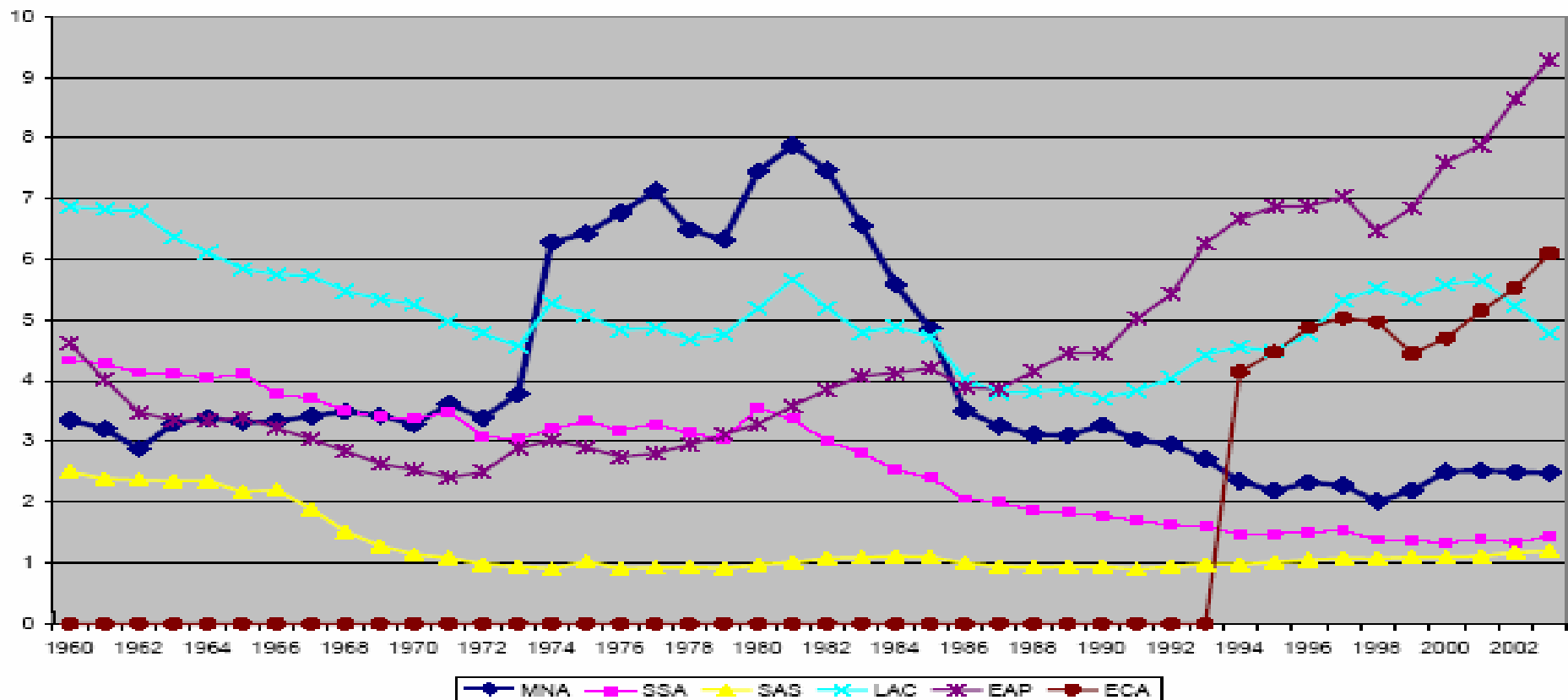
Figure 3: Share of Trade In GDP



Source: Dennis, Allen The Impact of Regional Trade Agreements and Trade Facilitation in the Middle East North Africa Region (World Bank WPS3837, 2006)

MENA's export share (non-oil) has been declining. How to reverse the trend?

Figure 1: MENA has experienced significant declines in share of world exports....



Source: Dennis, Allen The Impact of Regional Trade Agreements and Trade Facilitation in the Middle East North Africa Region (World Bank WPS3837, 2006)

MENA has been liberalizing international trade....

- Euro-Mediterranean Agreements (EMA). EMAs are currently in force in Egypt (2004), Israel (2000), Jordan (2002), Lebanon (2003), Morocco (2000), and Tunisia (1998).
- An interim association agreement, with the Palestinian Authority since 1997.
- Association agreements with Algeria (2002) and Syria (2004) concluded, Algeria in effect January 2006.
- Negotiations ongoing to establish a Euro-Mediterranean Free-trade under the "Barcelona Process".

But **trade facilitation reform** is key to realizing the benefit of trade liberalization.

Definition:

- Simplification and harmonization of trade procedures through:
 - Reduced transport costs
 - Improved port facilities
 - Efficient and modern customs regimes
 - Transparent and harmonized regulations
 - Improved information quality and information technology infrastructure
- Facilitating market access
 - Quality standards and lowering technical barriers
 - Market access schemes
- Access to export finance and insurance

To facilitate trade transactions, simplify processes

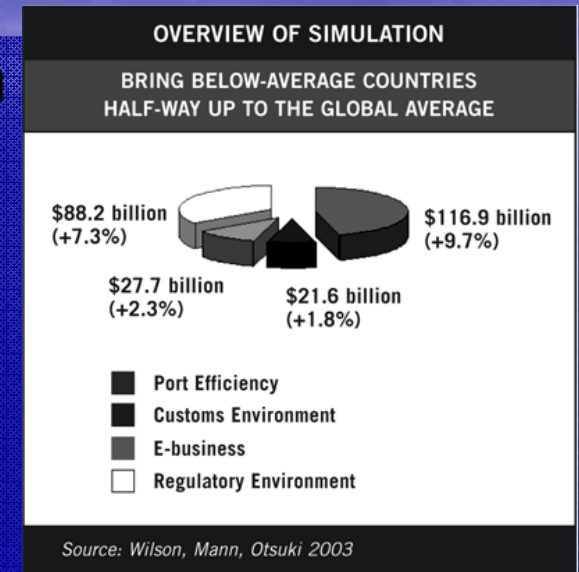
- Many documents
- Many players and interactions
 - A typical trade transaction can take as many as 150 different documents to complete
 - Raw material and component supplier
 - Manufacturer/assembler
 - Customs agents/brokers
 - Customs authorities
 - Government authorities- export promotion/approval/stat.
 - Local transport and warehousing companies
 - Container handlers
 - Port and harbor authorities
 - Shippers (sea, air, road, rail, canal, ...)
 - Bank and insurance companies
- Each have own set of paper forms and interactions with other organizations (incl. counterparts in importing countries)...

Saving time facilitates trade

- Trade logistics costs are as important as tariffs
 - Each day saved is equivalent to 0.5% tariff (Hummels)
 - 7% of value of world trade is cost of administration of trade logistics (UNCTAD)
- Time becomes even more important in multi-stage production (global supply chain)
 - % of vertical specialization in trade (use of imported inputs for exports) has grown 30% in the past 20 yrs and accts for half of overall trade growth.
- Willingness to pay to save time:
 - Share of airfreight in US grew from 7% in 65 to 30% in 98
 - Yet airfreight is 7 times as expensive as ocean shipping.

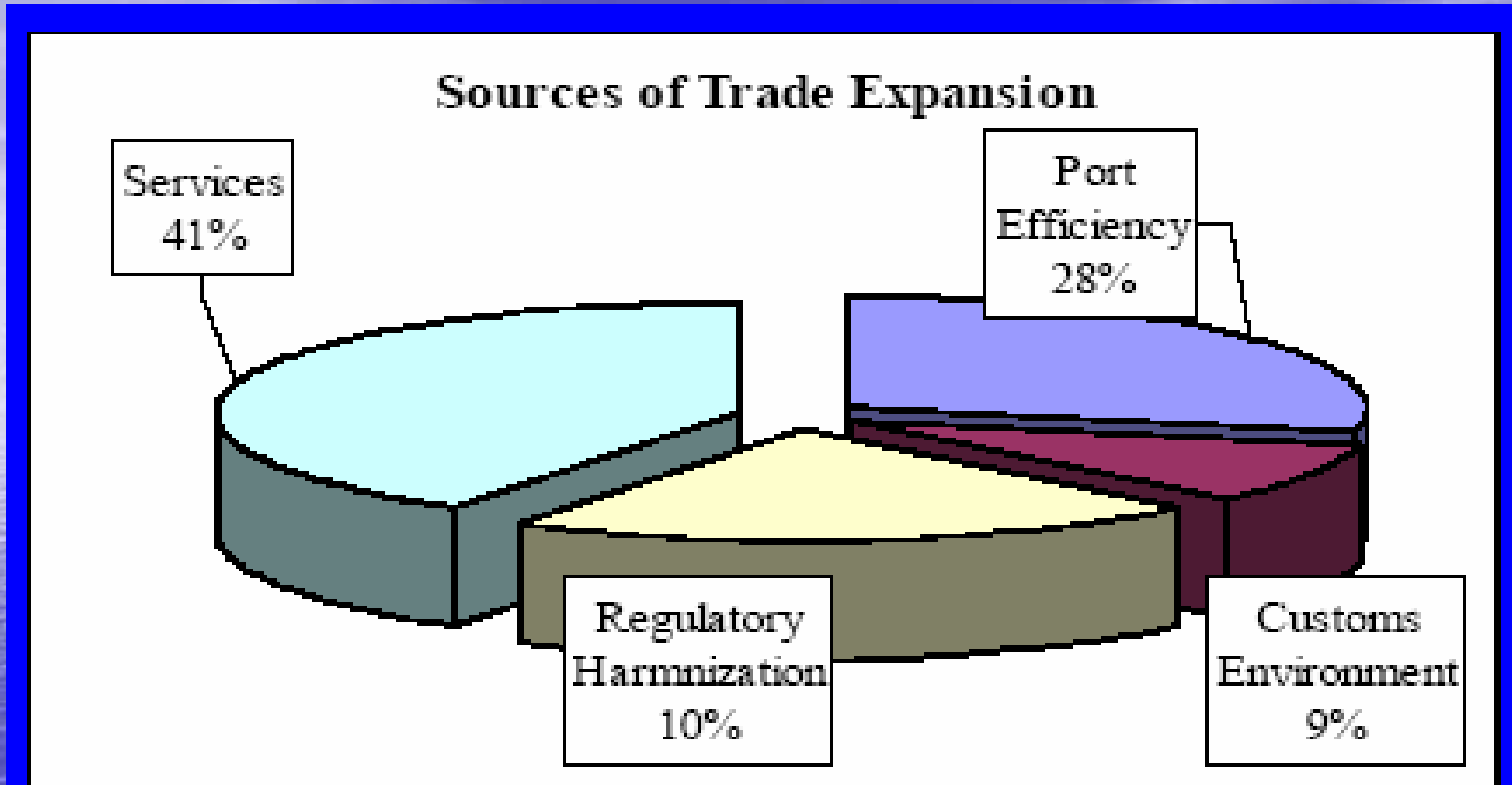
Evidence from East Asia: huge gains from improving trade facilitation...

- Study of Asia Pacific Economic Cooperation (APEC), measured:
 - port efficiency
 - customs environment
 - regulatory environment;
 - e-business usage.
- Raising capacity "half-way" to the APEC average in all four dimensions among those countries below average would yield an increase in intra-APEC trade of about \$254 billion dollars, a 21 percent rise in manufactures trade.



* *Source: John S. Wilson Trade Facilitation, WTO Rules, and Capacity Building: What's at Stake?* (World Bank Institute Development Outreach, July 2003)

Huge global benefits of trade facilitation reform:

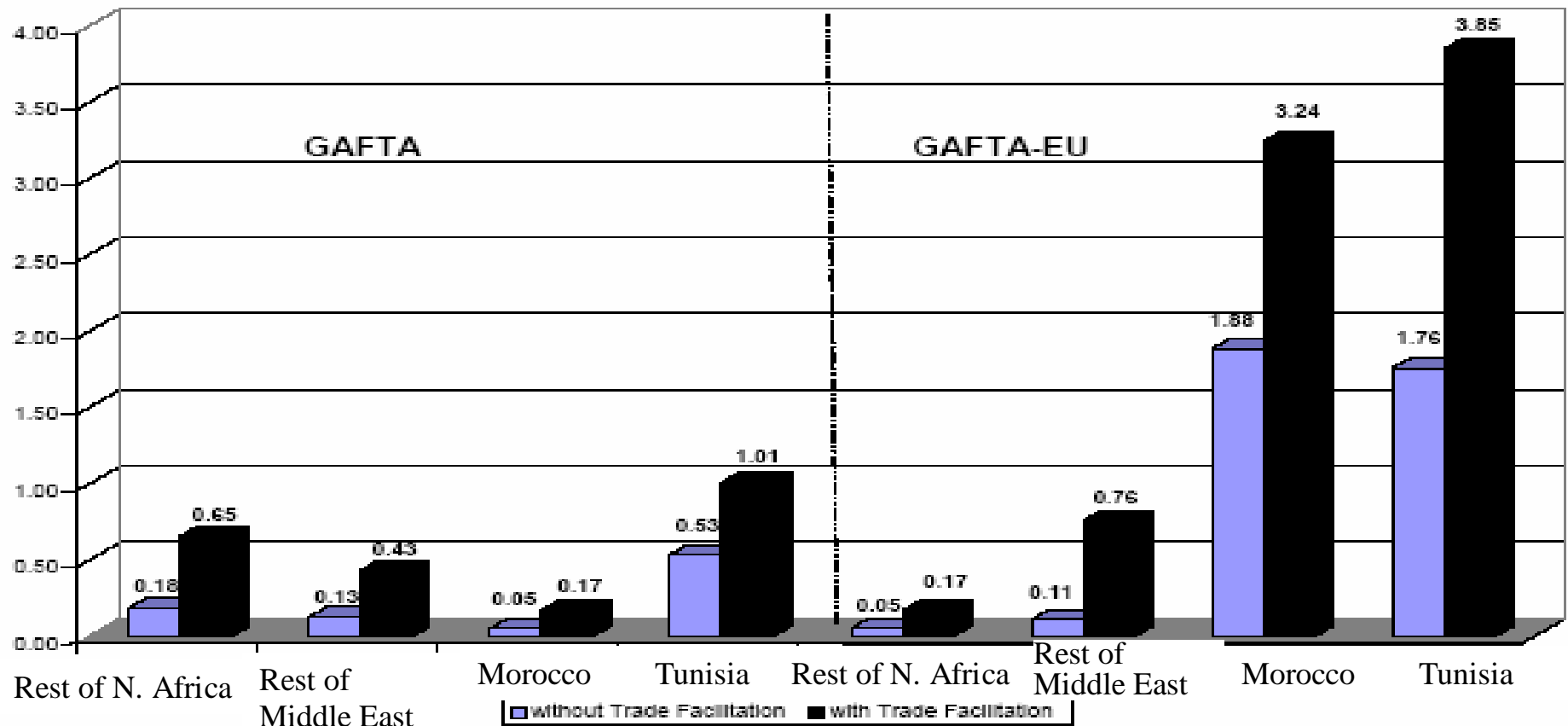


Globally...raising trade facilitation capacity of lagging countries half way to average yields a gain of 377 billion annually.

Source: John S. Wilson, TUTDR, *Trade Facilitation and Global Economic Prospects* (9/25/2003)

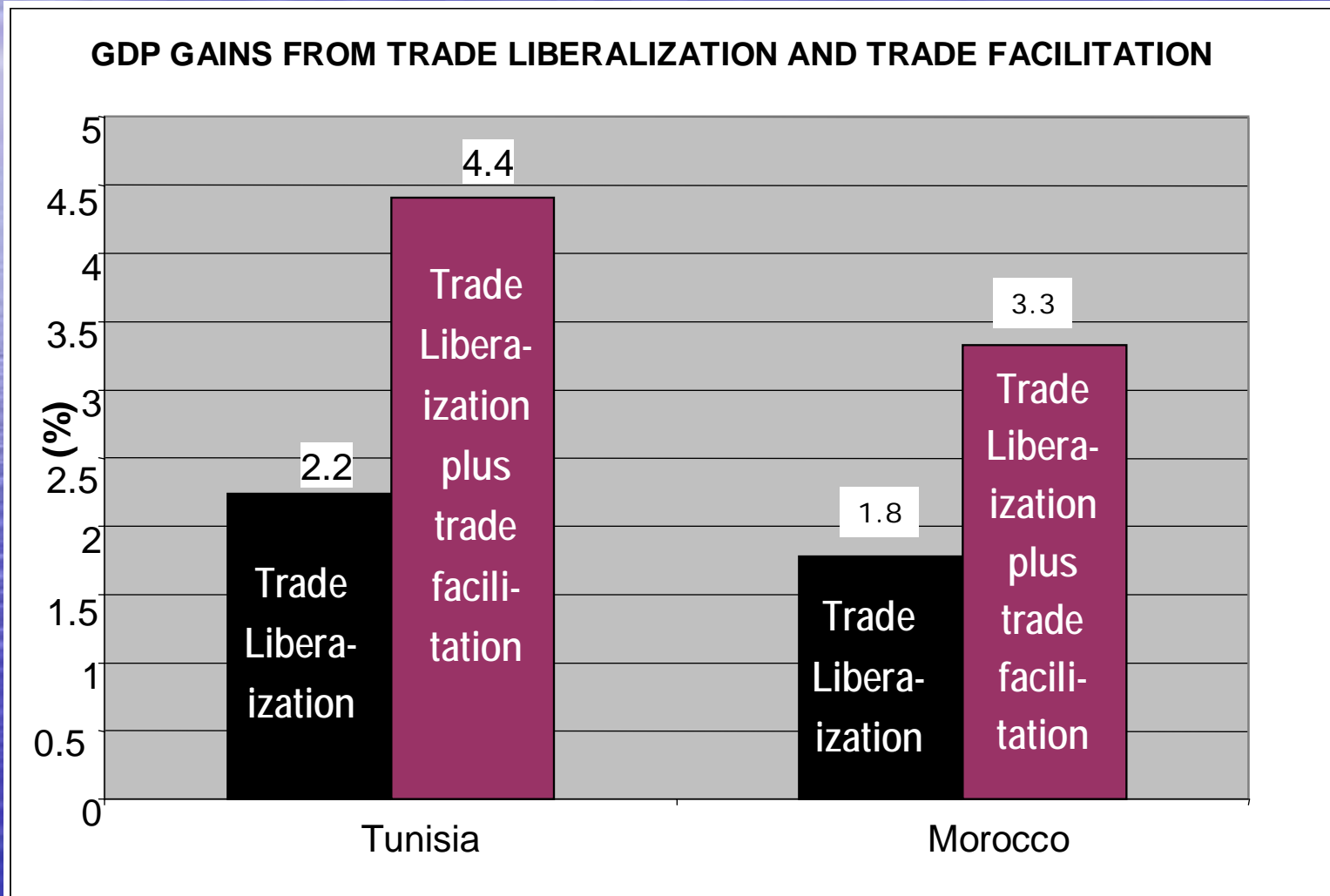
Trade facilitation reform would greatly increase the benefit of trade liberalization in MENA...

Figure 8: Trade Facilitation improvements significantly increase the welfare gains from liberalization.....

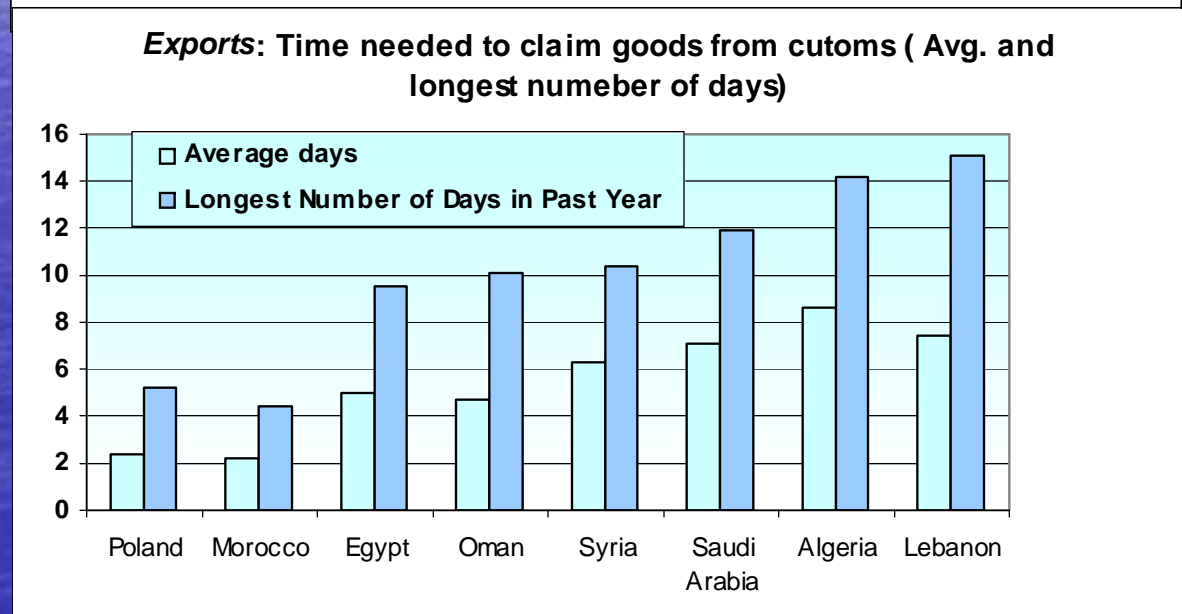
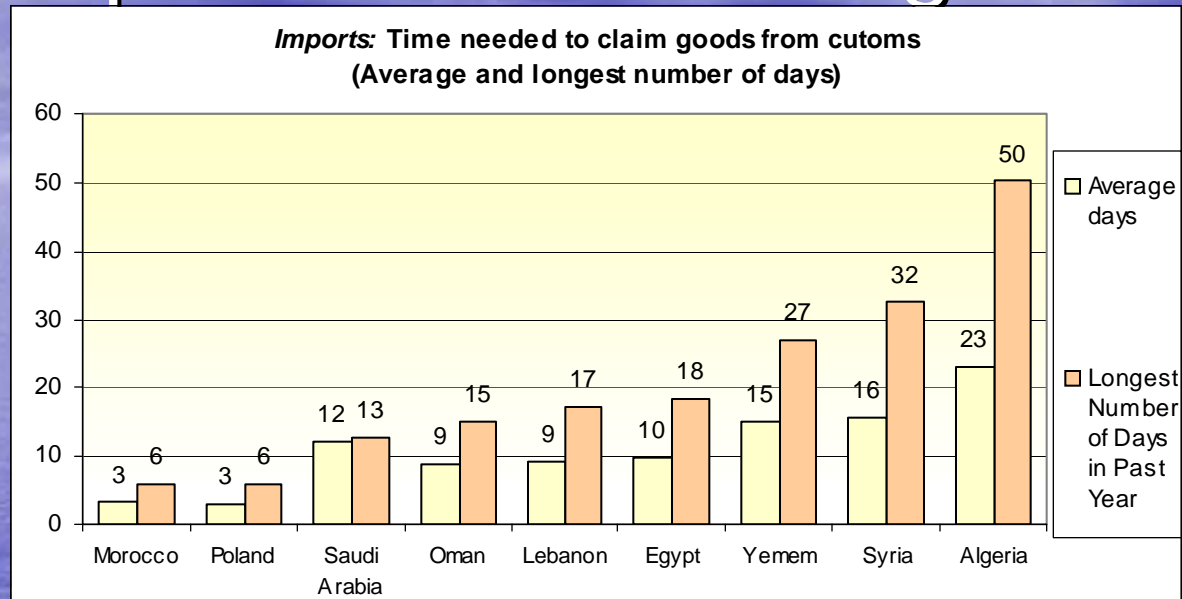


Source: Dennis, Allen The Impact of Regional Trade Agreements and Trade Facilitation in the Middle East North Africa Region (World Bank WPS3837, 2006)

...which would be further benefit from regulatory reforms that allow markets to respond to new incentives.



Trade facilitation delays put MENA firms at a competitive disadvantage



A small domestic economy such as Lebanon needs exports to grow and employ its population



- Trade is clearly vital to Lebanon's growth.
- While tourism and financial services have been key "exports" in recent years, some other export sectors have languished.
- In 1999, Lebanon began lowering tariffs to a weighted average of 8% now.
- Nonetheless, other policies protecting import-competing industries and the implicitly subsidizing nontradables act as strong anti-export biases.

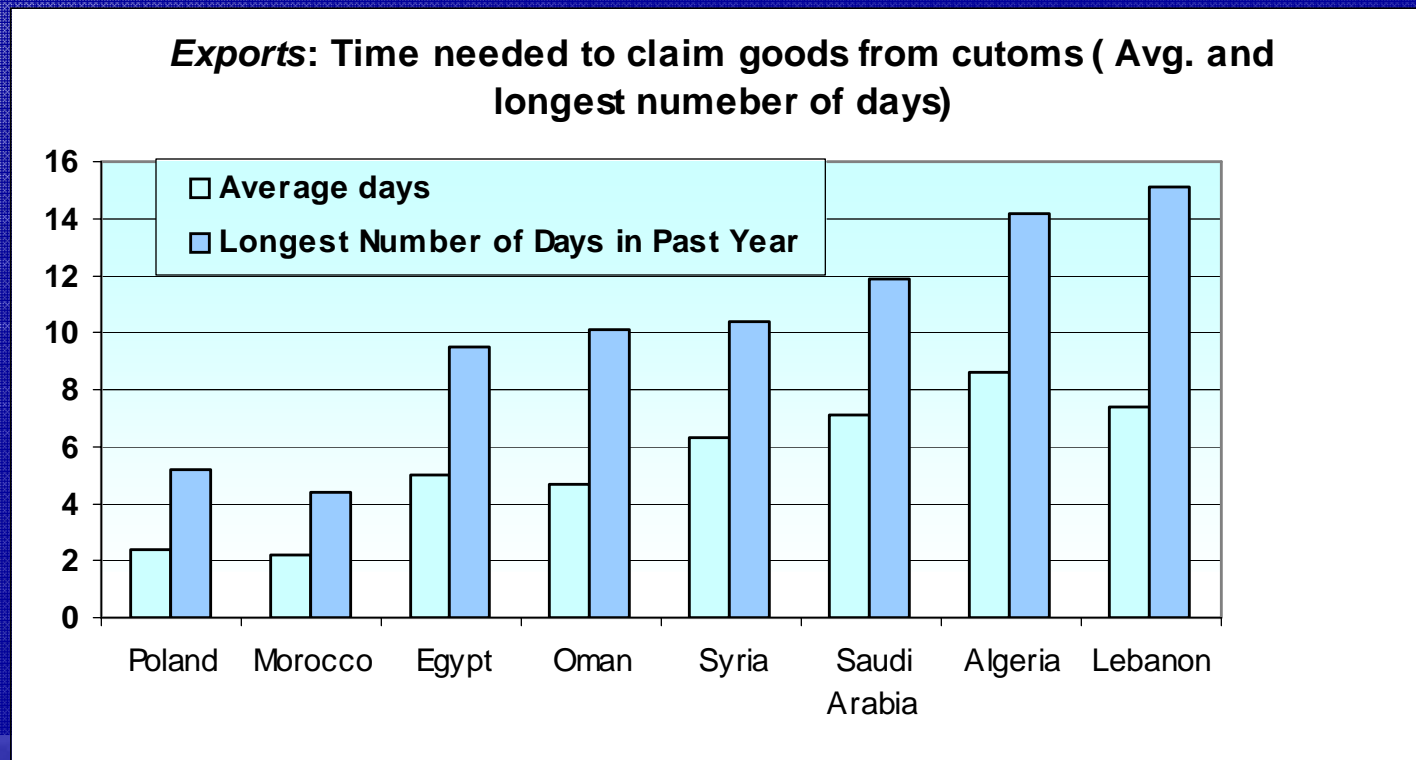
Growth Study: Anti-Export Bias



- Barriers to entry embodied in:
 - Exclusive agency agreements for imports
 - Utility monopolies
 - Corrupt practices
 - Legal and judicial flaws that impede contract enforcement and investor protection
 - High business start-up costs
- Anti-export incentives
 - Differences in the taxes applied to imports and domestic goods
 - Tax distortions in favor of non tradable sectors (VAT exemptions, and unbalanced land and labor taxes).

Trade processing in Lebanon is too slow...

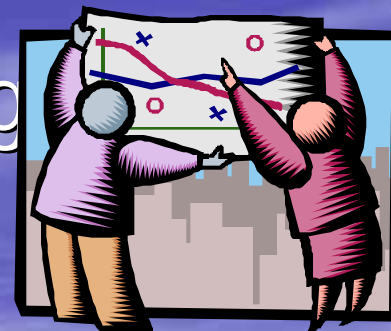
- Doing Business indicators for 2005: Lebanon 94th of 155 countries in "trading across borders."
- IC Survey – trade processing slow and unpredictable



...and too costly.

- Unofficial costs add 1.1% to total import value, 1.9% to total export value.
- Together with ineffectiveness in trucking, container handling and high port fees, Lebanese trade suffers serious **disadvantage** in comparison with its regional and Mediterranean competitors.

Needed: An action plan for reforming Lebanese trade facilitation.



- Much can be done at the country level (see part 2)
- Yet resolving these issues requires a concerted regional approach
- Neighbors too would benefit from reform of trade facilitation e.g. Syria*
 - *15 days to clear imports, up to 14 different declarations (and more than 50 signatures) required, all import cargo is inspected*
 - *"...[A]bolition of non-trade barriers ...would make the GAFTA and [the EU-Syria Association Agreement] agreements really effective. The trade pattern that would emerge is a strong increase of imports from Europe (including a large rise in investment goods) and a large increase in exports going to the GAFTA area ."*

* World Bank. Syria: Harnessing Trade for Growth (December, 2004)