United Nations
Economic Commission for Africa
Office for North Africa

Ad Hoc Experts Group Meeting

International Transport and Trade Facilitation in North Africa

Rabat, Morocco, 25-26 September 2014

Concept Note

Context

Today, there is a consensus between the authors of doctrine about the positive correlation between trade and growth (Baldwin 2003; Grossman and Helpman 1994)[1]. Trade openness and facilitation, whether through national reforms or in the framework of regional agreements or multilateral negotiations (WTO), exert leveraging on the economy via several channels : (i) the ascending size of market and economy of scale; (ii) improvement of the competitiveness of businesses and better resource allocation; (iii) transmission of technological innovations between business partners through foreign direct investment or due to the upgrading constraints resulting from competition between the relevant actors. The significant drop in trade barriers and transaction costs since 1947 with the signing of the GATT agreement led to strong growth in international trade increasing from 8% to nearly 25% of world GDP in 2010 (ECA, 2010)[2]. Likewise, growth in East and South-East Asia over the past thirty years was basically fuelled by the liberalization of trade and the choice made by these countries to produce for the world market.

Through the theory of free trade zones and customs unions, regional integration has been recognized by all States signatories of the WTO agreements as being an important vector of expansion of world trade (Memorandum of understanding on the interpretation of the article XXIV of GATT agreement). The multiplication of free trade agreements occurring since the entry into force of the Final Act of the Uruguay Round[3] (over 200) clearly illustrates the integration processes as strategic frameworks for the development of trade and their increasing importance in international trade. The dismantling or reduction in trade barriers increases the trade volume between partner countries and promotes greater specialization of the relevant actors on the basis of their comparative advantages. Besides, the existence of cultural, linguistic and sociological ties grant to the region or sub-region in question the characteristics of the so-called "natural" economic zones in which « *…trade ...* » - in theory, *« ... is more intense than with the rest of the world in the absence of trade barriers ...* (Krugman, P; Geography and Trade; MIT Press, 1991).

This description of a natural economic zone or area can be applied basically to the North African space. At the same time it encompasses most of the structure-building factors of a dynamic integrated market with a population in 2012 estimated at 200 million inhabitants (90 million for the five AMU countries), an average nominal GDP of approximately USD 4400 per capita, continuity of the physical space and an appreciable level of transport infrastructures. However, empirical data show that trading between North African countries remains well below its true potential. In other words, the existence in the sub-region of the main determinants of a performing market (per capita income, continuity of physical space and proximity, development of infrastructures, linguistic and cultural affinities) does not

[1] Baldwin, R., "Openness and Growth: What's the Empirical Relationship?", National Bureau of Economic Research, WP9578, Mars (2003)
Grossman et Helpman ; "Endogenous Innovation in the Theory of Growth", The Journal of Economic Perspectives, Vol. 8; 1994
[2] ECA, « Assessing Regional Integration in Africa IV », 2010
[3] WTO ; Database of RTA ; October 2012

constitute a sufficient condition for lifting inter-State trade to the optimum level. Intra-regional trade doubled between 2007 and 2012, the absolute values rising from USD 4.8 billion to nearly USD 10 billion; and this growth has contributed to the increase in global sub-regional trade, up by over one forth in the same period. The comparative dynamic of the two flows bears witness to faster development in intra-regional trade. This performance must, however, be nuanced, this trade representing only 4.8% of the total trade flows in 2012 of the relevant countries. This rate, well below the continental average (12%) is indicative of the still marginal nature of intra North African trade. Several explanatory factors contribute to this situation, along with mutually interacting effects. Among these factors are primarily (i) the fragmentation of economies – a corollary to the persistence of tariff and non-tariff barriers for trading in the intra zone and (ii) the volume of related costs. Péridy (2005)[4] showed the impact of high trading costs on exports in the MENA region. These costs which tend to limit export opportunities are significantly explainable by the lack of integration between the economies and the discrepancies in national regulatory frameworks. With the adoption in December 2013 of an agreement on trade facilitation or so-called « Bali Agreement », the WTO made the reduction of costs both a challenge and a strategic tool for boosting world trade.

Justification

The intensification of world trade resulting from the drop in customs tariffs and the progressive elimination of quotas, among other corollaries, places increasingly high pressure on public services, especially with regard to customs, and on economic operators with an increase in the transaction costs and the time periods required for processing operations at borders. The costs include direct expenses (documents and other information to be provided, payment of entry taxes and fees, compliance with technical and phytosanitary standards, storage costs in customs houses) and indirect costs such as waiting periods, the diversity of regulations between States or the lack of cooperation between border services. The time required for customs and other administrative formalities, the costs linked to quality of logistics services and infrastructures, or the number of roadside checks, are some of the "hidden" costs of cross-border trade. They represent a loss of trading opportunities and are factor of increase of the end product price paid by the consumer.

According to the surveys conducted by the OECD (2005)[5], the indirect costs can represent on their own from 2 to 15% of the value of products traded. The real effect on goods prices and the efficiency of transactions expressed in terms of late delivery and lack of reliability in customs clearance procedures will be contingent on the type of products traded, those which are perishable or have limited lifecycle likely to induce additional costs for conservation, without prejudice for irreversible damage. The lack of possible forecasting on the time periods for waiting and the true costs of inter-state transport can resultantly be a factor of market eviction and disincentive to investors. The same surveys revealed that developing

[4] Péridy .N, "Toward a Pan-Arab free trade area: Assessing trade potential effects of The Agadir Agreement", The Developing Economies, 2005

[5] OECD ; The costs and benefits of trade facilitation ; November 2005

countries are thought to benefit more greatly from trade facilitation measures with 65% of world gains compared to OECD countries. This is explainable by (i) the improvement margin in performances of the administrative systems in developing countries and (ii) the type of exports, largely consisting of commodities and mostly agro-food items, which are highly sensitive to the negative impact of inefficient management of border formalities.

The assessment report on integration in Africa made by ECA (ARIA V) shows that the continental free trade zone[6] scenario associated to an improvement in trade facilitation should bring intra-African trade to 21.9% by 2022 vs. 10.2% in 2010 with, for North Africa, more substantial development of trade in manufactured products. Trade facilitation covers the reduction in time periods and the simplification of the standards, procedures and formalities required especially for the movement, release and customs clearance of imported and exported goods, or goods in transit. It includes the development of infrastructures and the related logistics operations, border management and also, in a more general vision, the business climate, the fight against corruption and the reduction of bureaucracy. In terms of the effect on the economy, the reduction of indirect costs of international trading transactions can be somewhat compared to a reduction in customs tariffs. Trade facilitation is positive for businesses, States and consumers. Businesses gain in productivity and competitiveness as they are able to improve delivery deadlines, as do governments thanks to more efficient procedures at borders making possible the improvement of public revenues further to the handling of greater trade flows and the fight against fraud; while consumers benefit from a wider choice of products and better prices given the reduction in expenditures linked to the retention of products at borders.

North Africa has an appreciable level of transport infrastructures, in particular roads and port facilities. The trans- African road from Cairo to Dakar has now been tarred by 99% (13.195 km) and road links between Morocco, Algeria and Tunisia are practically all compliant with highway standards. Likewise, the extent of cross Mediterranean maritime traffic has generated a positive impact on the development and modernization of the port network with the completion of several large container terminals including Tanger Med (Morocco), DjenDjen (Algeria) and Enfidah (Tunisia). Much still has to be done, however, in this sub-region for logistics services and goods handling at borders to be at international standards in terms of cost and efficiency. According to the AfDB[7], export formalities in North Africa require on average 23 days and 7 administrative documents vs. 10.5 days and 4 documents in OECD countries. For imports, the time delays stretch from 17 days in Morocco, to 42 in Mauritania vs. 12.6 in EU countries. The average rate for goods subject to physical inspections is of 50%, vs. an average of 10% in developed countries. The consolidated logistic performance index for 2007-2014 of the World Bank –that measures at a scale of 1 to 5 the efficiency of infrastructures for trade, transport and related services (organization of shipments, follow-up and traceability of consignments, etc.)- gives evidence to the low level of competitiveness in

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[6] ECA, ARIAV, "Towards an african continental free trade area" ; 2012 ;
[7] AfDB ; Unlocking North africa's potential through regional integration ; June 2012

the sub-region, the countries of North Africa ranking between 62nd (Morocco) and 157th (Sudan) on a world scale[8] and the majority of their indicators ranking below 3.

Table 1 : Logistic Performance Index ; Consolidated ranking 2007-2014 / 166 countries

	LPI Rank	Customs	Infrastructure	International shipments	Logistics quality and competence	Tracking and tracing	Timeless
Algeria	111	95	113	112	125	122	112
Egypt	63	64	61	77	58	62	82
Libya	132	122	144	137	136	100	132
Morocco	62	73	48	61	73	71	63
Mauritania	145	146	105	151	141	138	136
Sudan	157	158	159	157	140	150	160
Tunisia	74	94	81	62	88	82	64

Source: Connecting To Compete – Trade Logistics in the Global Economy; World Bank; 2014

To the same ends, the Trade Facilitation Index of the World Economic Forum measures the degree according to which the various economies create institutions, policies and services facilitating the free movement of goods across borders to their place of destination. Out of the 132 countries evaluated in 2012 only Tunisia is classified in the first half of the ranking, the other countries coming in the 64th and 125th place on the world scale.

Table 2: Trade facilitation index; 2012 Ranking / 132 countries

Country	General Index /132 countries	Sub-index Access to market	Sub-index Borders administration	Sub-index transport and communication infrastructure	Sub-index business climate
Tunisia	44	53	44	53	37
Morocco	64	107	51	57	55
Egypt	90	113	76	60	93
Algeria	120	127	108	93	120
Mauritania	125	118	115	126	121

Source: World Economic Forum; The Global Enabling Trade Report 2012

In spite of the interrogations that could arise with regard to the reliability and pertinence of the data used, these assessments show the existence of a high number of performance deficits and just as many potential margins in efficiency gains and improvement of competitiveness of North African exports. To varying degrees, all countries in the sub-region are behind times with regard to the quality of logistics services, border administrative services, traceability and timeframes for the shipment delivery. Analysis of the various sub-indexes shown in the two tables reveals the absence of comparative advantages with respect to the rest of the world and substantial gaps between countries concerning the areas and levels of performance. The

[8] Logistic Performance Index ; Trade logistics in the global economy ; World Bank ; 2014

AfDB[9] underscores that the logistics performances of North Africa are basically determined by « …*the practices and services in support of trade with the European Union which do not necessarily match the special needs of integration of road transport, transit and border checks within the region ».*

For maritime transport in particular, North African countries are significantly lagging behind with the exception of Egypt which, with the Suez Canal, has historically benefited from a favorable ranking with regard to connectivity with world transport, and Morocco whose maritime connectivity index rise since 2008 due to the effect of Tanger Med facility. The experience of Tanger Med and its success in attracting world flows of container ships could, among other factors, be an example of best practices for the sub-region in terms of possibilities of gains in competitiveness and world connectivity. However, as for the Suez Canal, this kind of projects requires the initial condition of disposing of a strategic geographical position, heavy financial investments and large related infrastructures (road and railway networks, etc.). Such conditions being not present in all countries of the sub-region, greater integration of national infrastructures within the North African network including port services would allow significant gains in terms of trade facilitation via the improvement of logistics performances and better connectivity with inter-State land transport and world maritime transport.

The countries of North Africa must invest more in this prospect. Trade facilitation is and must remain a strategic lever of national policies for the development of foreign trade, as well as tool to support existing or future free trade agreements in the sub-region (Agadir, GAFTA, bilateral agreements, AMU FTZ in project). The removal of tariff and non-tariff barriers must occur hand in hand with the simplification of customs procedures and the reduction of costs and time periods for inter-State transport caused by the high number of administrative documents required, and the multiplicity and/or duration of roadside and border checks. A regional action plan should be developed to this end and implemented simultaneously with or prior to the entry in force of the AMU free trade area. It would include, among others: upgrading to international conventions standards on road and maritime transport, harmonization of tariff nomenclatures, adoption of a single uniform model for customs declarations, development of a single window concept and dematerialization of formalities at borders, harmonization of the axle load and dimension for inter-State goods transport vehicles, regional guarantee chain for goods in transit, cooperation between national customs administrations, including the establishment of integrated or side-by-side border stations and the exchange of computerized documents C2C and B2C. This plan would fit into the objective of intra-regional trade development in the existing cooperation frameworks (AMU, CEN-SAD, Agadir, GAFTA) and in a joint approach for the implementation of the trade facilitation agreement signed in December 2013 in Bali (Indonesia) in the framework of the WTO.

Through its mission of support to « *the facilitation of cooperation, integration and economic development at the sub-regional level »,* the ECA Office for North Africa has the vocation of assisting its Member States and their cooperation institutions in their efforts for the

[9] AfDB; *op. cit*. p. 130

strengthening of their capacities in the « devising of plans and policies based on factual data … » for the structural transformation and economic integration of the sub-region. At this end, the Office programme of activities for 2014 foresees, among others, the organization of an ad hoc meeting of experts on « **International transport and trade facilitation in North Africa** ».

Objectives

The general objective of the meeting is to help speed up the regional integration process in its dimension of 'the development of intra North African trade'. The specific objective will be to propose on the basis of a preliminary study, the outline of a regional plan for the facilitation of trade and in particular of inter State transport and transit in the North African space. This will entail the formulation, on the basis of a diagnosis of the main gaps or areas of belatedness identified, a joint action framework to (i) raise the level of performance of border administrations and the quality of logistics services, and (ii) to sustainably assist initiatives for the development of trade and economic integration existing in the sub-region.

The experts will discuss the main conclusions and recommendations of the working document in order to enhance and adopt them. The outcome of the meeting and preliminary study will be consolidated by a publication addressing the main stakeholders: national administrations, national bodies to coach actors of inter-state transport/transit, AMU General Secretariat, Maghreb Employers Union, foreign partners dealing with the issues of international transport and trade facilitation.

Participation

This meeting will entail the participation of national and international experts in the areas of customs, transport, international transit, foreign trade, regional integration, information and communications technology, private sector and civil society.

Date and venue

The meeting will take place in Rabat (Morocco) from 25 to 26 September 2014.

Working languages

The meeting will be held in French, Arabic and English.

Documentation

The documentation of the meeting will include the working paper drafted by ECA Office for North Africa and the communications of participants.