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Introductory Remarks by Rodrigo de Rato
Managing Director of the International Monetary Fund
At the
Conference on Trade Facilitation in Algeria, Morocco, and Tunisia

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1. Ministers and Governors. I would like to thank the Algerian authorities for hosting this important conference and I am very pleased to be participating in it. I would also like to express my appreciation to the delegations of Morocco and Tunisia for attending the conference. I would also like to thank the experts for their productive preparatory work over the past two days.
2. As you know, the IMF considers regional trade an important element of a broader strategy to help its member countries harness the benefits of globalization. Integration into the global economy provides enormous opportunities in terms of investment, growth and economic efficiency, and intra-regional trade is an essential component of such integration. The main focus of discussion in this conference is facilitating intra-Maghreb trade to maximize the benefits from the ongoing trade integration with the European Union and the rest of the world, with a view to accelerating growth and reducing unemployment in Algeria, Morocco, and Tunisia. I see this conference as a way of enhancing collaboration among the Maghreb countries on issues that in the future could include financial sector integration, capital account liberalization between the three countries, development of the private sector, and regional infrastructure projects.
3. It is clear that Algeria, Morocco, and Tunisia have made major strides toward economic prosperity. Stable macroeconomic conditions and a steady pace of economic reform have led to a significant rise in per-capita incomes. In recent years, Morocco and Tunisia have continued to reduce their reliance on agriculture. In Algeria, the nonhydrocarbon sector is now growing thanks to increasing private sector presence. I am convinced that, in addition to ongoing reforms, a key factor behind these favorable results has been the increasing openness of the region, and in particular economic integration with the European Union in the context of the Association Agreements signed by the

three countries. These agreements not only have provided a broad market for Maghreb exports and cheaper inputs for their production, but have also proved to be an important vehicle to promote market-oriented reforms.

4. While the three Maghreb economies have already started to reap the benefits of policies that favor private initiative and investment, they still face a daunting challenge. All three countries need to build up momentum in economic reform to reduce unemployment and poverty by accelerating growth.

5. Let me give you some indications on the magnitude of this challenge. First, if the three countries were to maintain the annual real GDP growth rates of around 4-5 percent that they experienced during the last five years, it would take more than 20 years to reach per-capita income levels close to those now prevailing among lower-tier OECD countries. Higher growth rates are needed in Algeria, Morocco, and Tunisia to accelerate this process. Second, unemployment rates, although declining, remain very high: 18 percent in Algeria, 11 percent in Morocco (19 percent in urban areas), and 14 percent in Tunisia, with youth-unemployment exceeding 20 percent in all three countries. To reduce unemployment much more rapidly, GDP growth needs to be raised. Achieving these objectives would require accelerating economic reforms in all areas to improve productivity and investment levels. As the experience in other regions has shown, enhancing trade is also crucial. The fastest growing world region, East Asia, is also the region where intra-regional trade is the highest. Bilateral trade among ASEAN countries accounts on average for about 30 percent of each country's total external trade. In the Maghreb region, only less than 2 percent of each country's international trade is with its immediate neighbors.

6. I am convinced that greater economic integration within the Maghreb will contribute to achieving and sustaining higher growth. Let me mention three main reasons for this view:

- First of all, it would create a regional market of more than 75 million consumers, similar in size to many leading trading nations, and large enough to exploit economies of scale and make the region more attractive for foreign investment. For each European economy, the benefits from market integration were estimated in the range of 4 to 6 percent of GDP in 1988, when the first phase of European integration had already been completed and intra-European trade was already high. This suggests that for the Maghreb countries, the gains are likely to be much higher because of the likely favorable impact on productivity and efficiency. The experience of the EU-accession countries can give an idea of the potential increase in foreign direct investment: FDI to Poland increased from 0.5 percent of GDP to almost 3 percent between 1994 and 2004. FDI also increased sharply in Argentina and Brazil following the creation of MERCOSUR with Paraguay and Uruguay in the early '90s, and in Mexico following the creation of NAFTA with the U.S.A. and Canada in 1994.

- Second, integration would create the opportunity for mutually beneficial trade within the region because of the complementarities of economic structures in the three countries. The Maghreb region currently does not exploit these opportunities, since bilateral trade among the three countries accounts only for a tiny fraction of each country's total trade. To illustrate the size of the trade potential that higher regional integration could unleash, it is enough to note that trade between Tunisia and Libya has reached US\$900 million, up from US\$600 million in 2002, when the two countries signed a bilateral free-trade agreement.
- Third, integration would make the region more attractive for foreign investors by reducing the possibility of so-called hub-and-spoke effects. These hub-and-spoke effects emerge when a large country or a region, the hub, signs bilateral trade agreements with several small countries—the spokes. Without regional integration complementing integration with the hub, an investor could decide to move away from a spoke to the hub to exploit better access to the other spokes. For instance, a foreign investor in Tunisia could decide to relocate to Europe to be able to export to all the other countries that have signed trade agreements with the EU, unless he was assured of access to the whole Maghreb region.

7. Fund staff has carried out a study that identifies the main obstacles to trade in the region and makes specific recommendations on how to facilitate trade. We will be discussing later on the main conclusions and recommendations of the study. I hope the discussion today will help us to identify concrete steps to promote regional trade integration among the three major Maghreb economies. Needless to say that, while not addressed in this conference, the reopening of the borders between Algeria and Morocco would be a major boost to trade between the two countries and in the region. As I indicated to you in Washington, I would like to suggest a pragmatic approach in our discussions today that builds on the efforts and experiences already in place and focuses on technical issues, keeping political issues aside.

8. In our discussion, we could learn from and build on successful initiatives in each country, such as the tariff reform in Algeria, the reorganization of customs in Morocco, and the introduction of an Electronic Data Interchange system in Tunisia. Let me propose, for your consideration, five major themes for discussion:

- First, how could we disentangle the intricate web of tariff schedules and regulations deriving from too many preferential bilateral trade agreements? As you know, each of the three countries has signed an agreement with the other two and an Association Agreement with the EU. They have also each subscribed to the Greater Arab Free Trade Agreement, which came into effect in January 2005. Moreover, each country has free trade agreements with a number of third countries. Each agreement comes with its different tariff reduction schedules and with different, and, at times, not

completely consistent rules of origin. This complexity of the trade system generates substantial administrative costs and contributes to making the business climate unpredictable because of the uncertainty on the tariff level the importers face. Furthermore, this system is difficult to administer and in fact possibly hinders trade because of its lack of transparency.

- Second, how can we press forward with multilateral tariff simplification and reduction? The tariff reform in Algeria is a good example to follow. Lower multilateral trade tariffs and a simplified tariff structure will limit the risk that integration with the EU leads to a diversion of trade to third countries, away from the Maghreb. The risk of trade diversion from a low-cost third country arises because high multilateral tariffs provide a relative advantage to high-cost producers in the EU. Lowering multilateral tariffs minimizes these risks by creating a more level playing field for EU and third-country producers.
- Third, how can customs procedures be further enhanced? The simplification of procedures, the establishment of transparent relations with the private sector, and the use of selective controls, could go a long way toward reducing customs clearance times, as it was done successfully in Morocco. Moreover, customs clearance continues to take place almost exclusively at border posts, while modern transport methods require the use of customs transit and clearance at the point of delivery. Unloading and reloading at the border posts can add substantial transactions costs.
- Fourth, how can document processing be streamlined? Because of other administrative hurdles, the reform of customs methods may not be sufficient to reduce the delays that hamper trade. An important step toward trade facilitation would be to simplify administrative procedures and organize the transmission of relevant information and documents. Tunisia was successful in implementing an Electronic Data Interchange system, and this experience could be shared with the other countries.
- Fifth, how can the transport infrastructure be improved? Trade in the region cannot improve unless transport infrastructure is upgraded through better port organization and the use of the existing rail links. For example, sea transport among the three countries is indirect. In other words, it appears that the fastest way to ship goods from Tunis to Casablanca or Algiers is by going through Marseilles! Also, the average time that containers spend on docks in the three countries remains much higher than in European ports. This is very costly to importers. Moreover, the existing rail link between Marrakech and Tunis is practically not used for regional trade. The completion of the East-West highway in Algeria will improve substantially road transportation in the region.

9. I would like to stress that the IMF's role in this conference is that of a facilitator of the discussion and the exchange of experiences among the Maghreb countries. We are

also ready to support the Maghreb countries as you engage in regional trade integration, with technical assistance and policy advice in the context of the annual consultations with each of your countries. We will also be ready to monitor and follow up on the concrete steps and their implementation.

10. Let me conclude by saying that I am very optimistic about the region's outlook. The current strong macroeconomic position of each of the three countries provides an excellent opportunity for further accelerating economic reforms and strengthening regional and global integration. I am confident that Algeria, Morocco, and Tunisia can move to a higher growth path, which would be sustainable, broad-based, and in line with your own goals of increased job creation and higher living standards. Enhanced regional integration has to be an important component of the strategy needed to achieve these goals.

11. I look forward to fruitful and productive discussions here. Thank you.