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Regional Cross-Border Trade Facilitation and Infrastructure Study for Mashreq Countries

Final Report

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Acknowledgment

The Regional Cross-Border Trade Facilitation and Infrastructure Study for Mashreq Countries was carried out by a World Bank Team.

The report was prepared by a team led by Abdelmoula Ghzala and which included Robin Carruthers, Monica Alina Mustra, Hamid Alavi, Vincent Vesin, John Arnold, Jean-François Arvis, Ibrahim Dajani, Fatiha Amar, Azeb Yideru and Osama Noujoum. The Team wishes to thank Farrukh Iqbal and Hussain Razavi for their reviews and comments on the report.

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Abbreviations and Acronyms

ASEAN	Association of Southeast Asian Nations
ASYCUDA	Automated System for Customs Data
CAREC	Central Asian Regional Economic Cooperation
ECA	Economic Commission for Africa
ECE	United Nations Economic Commission for Europe
ECLAC	Economic Commission for Latin America and the Caribbean
ECOWAS	Economic Community for West African States
EIB	European Investment Bank
EU	European Union
FIATA	International Federation of Freight Forwarders Associations
GCC	Gulf Cooperation Council
GMS	Greater Mekong Sub-region
ICT	Information and Communication Technology
IFC	International Finance Corporation
ISMF	Institutional and Sector Modernization Facility
MERCOSUR	Southern Cone Common Market (Mercado Común del Sur)
MOU	Memorandum of Understanding
NAFTA	North American Free Trade Agreement
PAFTA	Pan-Arab Free Trade Agreement
SAARC	South Asian Association for Regional Cooperation
SACU	Southern African Customs Union
TEN	Trans-European Transport Network
TIR	International Transport of Goods (Transit International Routier)
TRACECA	Transport Corridor Europe-Caucasus-Asia
TTCA	Transit Transport Coordination Authority
UAE	United Arab Emirates
UNCTAD	United Nations Conference on Trade and Development
UNECE	United Nations Economic Commission for Europe
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNESCWA	United Nations Economic and Social Commission for Western Asia
USAID	United States Agency for International Development
WTO	World Trade Organization

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PREFACE

Appreciation of the importance of trade facilitation and transport infrastructure has reached the stage that it is now understood to be one of the main inhibitors to current levels of trade, and also one of the main potential stimulants of increased trade. This appreciation has come later to the Mashreq region than to many others. The report is aimed at redressing this delay and jump-starting the region's action to bring its trade facilitation transport infrastructure closer to global best practice standards.

The first draft of the Report was circulated for comment in February 2010, and its conclusions and recommendations presented at workshops in Beirut and Damascus in the following two months. There was a positive response to the recommendations, but also many comments on the specification of the main trade corridors, on the descriptions of the transport infrastructure in those corridors and on the Report's trade statistics and projections. The conclusion of the draft report that trade facilitation in the region was rapidly falling behind that of competing regions reinforced similar conclusions of other studies made available at about the same time. The response to this conclusion has been dramatic, with many of the recommendations of the Study already being implemented, so that more progress has been made on updating trade facilitation and trade corridor infrastructure in the last twelve months than in the previous decade.

We are grateful for the many comments received on the first draft of this Report. We have taken account of as many of these comments as possible. The specifications of the trade corridors have been expanded and the description of the transport infrastructure in the corridors has been updated to incorporate the many improvements that have been made. We have also attempted to correct and update the trade figures where possible, but this has not been possible for those cited from other studies.

Given the many advances made in trade facilitation and provision of transport infrastructure that have taken place in the Mashreq region during the last year we do not expect to have captured all of them in this final version of the Report. The accelerating rate of change is a promising precedent for the implementation of the many recommendations that it includes.

There have been so many contributions to the content of the Report that it is difficult to acknowledge them all without the risk of omissions. However, the authors would like to specifically acknowledge the support given by the Ministries of Transport of the five Mashreq countries. Without their extensive and generous support and encouragement it would not have been possible to embark on the data collection and analysis that provides the background and context for the Report's conclusions and recommendations.

The findings and recommendations of the Report are those of the authors. They do not necessarily reflect the views of the World Bank, its executive directors or the countries that they represent. All errors and any omissions are exclusively those of the authors.

EXECUTIVE SUMMARY

1. **Many opportunities for trade of the Mashreq countries[1] are being lost because of inefficient trade facilitation processes and procedures, and to a lesser extent because of underdeveloped transport infrastructure.** Implementation of the Pan Arab Free Trade Agreement has substantially reduced formal trade barriers between the countries. However, facilitation and transport impediments today impose greater losses in trade, than formal trade tariffs and quota restrictions. [2,3] Many of the trade facilitation barriers could be reduced by technically straightforward but often politically and strategically difficult solutions. Infrastructure investments – mostly in small but carefully selected locations - will be easier to implement but have a smaller trade stimulation impact.

2. **Previous studies and analyses came to similar conclusions and proposed similar measures as those made here.** However, few of their recommendations have been implemented, and most of the more pressing issues remain to be addressed. One of the main reasons for the limited action is the absence of an organization with overall responsibility for implementing the recommendations.

3. **A more formal management of the major trade corridors in the Mashreq region could provide a new context in which it would be easier for the necessary technical, investment and operational changes to be made.** This management would come from a specialized international corridor arrangement whose objective is to increase trade facilitation in a north-south corridor with its linking east-west corridors. There is today extensive knowledge on the institutional arrangements for such agencies that work best under different conditions.[4] Trade facilitation and transport services are largely the responsibility of private operators, yet an increase in their effectiveness would come through this agency which would include both private and public sector representation. The institutional proposals included in the short and medium term action plans are designed to create this new context. Recent initiatives within the Arab League to establish sub-regional committees of transport ministers have a similar objective of bringing a more focused attention to addressing trade facilitation issues. The proposal for a corridor management system presented in this report builds on these initiatives and draws on the experience gained from the operation of management systems in other corridors.

4. **This study used two analytical tools to assess the major trade and transport impediments to increased trade**. The first was a review of the many previous studies on the topic, their proposed recommendations, and the progress made to date in implementing them. The second was a trade and transport facilitation Audit, in which representatives of all participants in these procedures and processes were interviewed. Based on the results of the reviews and Audits assessments of the current issues were made and their possible solutions assessed.

Previous studies

5. Over the last decade, the most active agencies in trade facilitation studies in the region, have been UNESCWA (United Nations Economic and Social Commission for Western Asia), the Arab league, the European Union, and to a lesser extent, the World Bank. Other agencies and organizations, such as USAID (United States Agency for International Development) and UNESCAP (United Nations

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[1] Iraq, Jordan, Lebanon, Syria, West Bank and Gaza

[2] Changes in Cross-Border Trade Costs in the Pan-Arab Free Trade Area, 2001-2008, Bernard Hoekman and Jamel Zarrouk, World Bank, June 2009

[3] Chapter 1.8, The Global Enabling Trade Report 2009, page 84, World Economic Forum 2009

[4] Best Practices in Management of International Trade Corridors, Transport Paper 13, World Bank, 2006

Economic and Social Commission for Asia and the Pacific) have also been active in specific aspects of trade facilitation.

6. UNESCWA is by far the most active agency in advancing the cause of trade and transport facilitation in the region. For more than a decade, it has been a consistent and forceful proponent of measures to improve trade and transport facilitation. UNESCWA activities have ranged from providing regional transport strategies to assessing specific facilities in individual countries. The most useful contributions were an *Evaluation of the Benefits of a Common Transport Area of Jordan, Syria and Lebanon*, presented at the Second Mediterranean Transport, and a Logistics Forum in Barcelona in 2004.

7. The EU reports were produced as part of the Euromed project which provided considerable details on the available multimodal routes and corridors and their advantages within the broader context of both transport efficiency and the environment. This project also assessed the need for logistics platforms within the region.

8. The World Bank conducted a study on the reduction in costs of trade as a result of the Pan-Arab Free Trade Agreement. It also performed supply and value chain analysis in Syria and Lebanon. In addition, the World Bank carried out a number of studies related to aspects of trade facilitation. Specifically, USAID sponsored studies that examined supply chains in Jordan and Palestine.

Trade and Transport Facilitation Audits

9. The second source of information and data for this study was the trade facilitation Audits undertaken in Syria, Jordan, and Lebanon, during the first two months of 2009.

10. These Audits were carried out using the revised Trade and Transport Facilitation Audit Toolkit prepared by the World Bank.[5] The Audits were carried out within a structured framework of interviews with representatives of private and public participants in the trading process. The private sector participants included exporters and importers and their representative agencies (such as Chambers of Commerce and Chambers and Institutes of Trade), providers of transport and logistics services, customs brokers, and freight forwarders. Public sector participants included customs agencies and others requiring border inspections, and government agencies responsible for the regulatory and institutional framework that govern trade procedures, and which are responsible for the provision of transport infrastructure (such as the Ministries of Finance, Trade, and Transport and Planning). The Audit findings largely support those of many earlier trade assessments. But as the Audits were undertaken simultaneously for the three countries, the opportunity was taken to make additional findings relevant to the sub-region.

Trade Volumes

11. The total value of international trade for Mashreq countries, expressed as a share of their GDP, (about 76% of their GDP) is above the average GDP's share of countries of the Middle East and North Africa (68% of their GDP), lower-middle income countries (66% of their GDP), and middle income countries (63% of their GDP). The picture is quite different, when only non-oil trade is considered, and when exports and imports are considered separately. When oil exports are excluded, the Mashreq share at an average of only 21% of GDP is far below the averages of 31% and 39% of GDP for comparable countries. In contrast non-oil imports at 55% of GDP are much higher than imports for comparable

[5] Trade and Transport Facilitation Audit: A Toolkit for Implementation, World Bank, November 2009

countries (33% to 44% of GDP). Consequently, there is much to stimulate exports if Mashreq countries were to achieve compatible levels of export competitiveness.

Trade Patterns

12. **Mashreq countries trade more with EU countries than they do among themselves**, but their intraregional trade is still higher than intraregional trade of some other trading blocs such as MERCOSUR and the GCC as well as higher than for members of the Pan Arab Free Trade Area. The EU is the major trading partner of the Mashreq countries, accounting for more than 25 per cent of exports and rather more for imports, with the GCC being next in importance with nearly 7 per cent of Mashreq exports and about 17% of Mashreq imports. Only about half of the imports from the GCC are non-oil products, and a large share of their value is of Asian origin.[6]

13. The share of trade between the Mashreq countries is about 17% of their total trade. It is much less than the 65%+ of the two largest trading blocs (NAFTA and EU), rather less than that of ASEAN (26%), and rather more than MERCOSUR (16%) and the Arab League countries as a whole (11%).

14. Over the next decade, growth in overall trade for the Mashreq countries, could reach 3.6% per year, with exports growing at 6.5% per year, but only if trade facilitation and transport infrastructure impediments were to be removed. In the next decade, even higher growth rates are possible, mostly attributable to sustained growth in the economy of Iraq, with total trade growing at just over 5% per year and exports at 7.5% per year. If these potential growth rates can be achieved, total trade will more than double, and exports would more than triple in value, compared to their current levels.

15. Improvements in trade facilitation and transport infrastructure would also result in larger share of intra-Mashreq trade, perhaps reaching more than 25% of the total, while the trade share with Europe is expected to decline despite a growth in its absolute amount. Trade with Asia is also expected to significantly increase but from relatively low levels at present.

Trade Routes and Corridors

16. **Most of the Mashreq region's external trade involves three distinct markets, Europe, the Gulf, and Asia**. Each presents a unique challenge not only because of their geographic location but also because of the limited transport mode choices available. The main corridors that connect the Mashreq countries to each other and to the longer routes linking to the rest of the world, are:

- a **North-South Corridor** that links the EU via Turkey, Syria and Jordan to Saudi Arabia and the Gulf States, with connecting links to Lebanon and Egypt;
- **East-West Corridors** that link the Mashreq ports of Aqaba, Latakia, Tartus, Tripoli and Beirut via Syria and/or Jordan to Iraq;

17. *Routes to Europe* - For trade with Europe, there is a complex multimodal network that provides a variety of routes, most of which make some use of one or more of the major corridors. The choice between land and maritime routes depends on the relative importance of time, cost and reliability. There is potential for the land routes to Europe to become more competitive should the road and rail links in the North-South Corridor be improved.

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[6] There is a widely held belief in the Mashreq countries that some imports from the GCC do not fully satisfy the requirements for local content to qualify as GCC products. Some Mashreq countries now require that all imports from Asia come through a national port.

18. *Routes to the Gulf States* - For shipments from the Mashreq countries to and from the Gulf, the principal route remains the North-South Corridor through Syria, Jordan, and Lebanon connecting with an East-West Corridor through Saudi Arabia. From Iraq to the Gulf there is a second north-south corridor from Baghdad through Kuwait, but this corridor is not considered in detail in this report. Upgrading of the road and rail links in the north-south corridor would reinforce its advantage over the maritime alternatives.

19. *Routes to Asia* - Most of the Mashreq trade with Asia uses all-maritime routes from Mashreq Mediterranean ports (or Aqaba), but there is also a multimodal route using road transport to and from the Gulf ports, connecting to the sea routes from Asia. The upgrading of the road and rail links in the North – South Corridor would make the multimodal route more competitive with the all-maritime routes.

20. *Routes within the Mashreq Countries* – Goods transferred between Mashreq countries move exclusively by land. The North-South Corridor serves mostly intra Mashreq trade, while the East-West Corridors are more oriented to trade between Europe and the Mashreq countries. In the future, they will also be used for the expected trade between Iraq and the other Mashreq countries. Since most of the intraregional trips are short, less than 1000 km, the trip time is largely determined by the time spent at the border crossings and in the urban areas where the cargo is picked up and delivered.

Logistics Services, Border Procedures, and Transport Infrastructure

21. The logistics services and transport infrastructure to support international trade, available within the Mashreq region, have significantly improved over the last five years, yet much more rapidly in some countries than others. However, with the exception of port operations, they are still lagging behind those in competing countries.

22. *Ports* - **Over the last five years, most Mashreq ports have improved their performance**. The six Mashreq ports[7] are all of medium-size, which experienced strong growth in container traffic and a significant increase in productivity during the last decade. As traffic continues to grow, a main challenge for the region will be to establish a hub port on the Eastern Mediterranean and regional distribution center in the southern part of the region. Door-to-door transit times from cities in the Mashreq region are at least one week, even to the closest destinations, and about one month for the longer routes to Asia.

23. *Maritime services* - **The availability of shipping services through Mashreq ports has increased more than in proportion to the increase in trade,** yet since most of them are feeder services that require transshipment at a hub port, the delivery time is increased by several days. Most of the shipping lines serving the Asia-Europe trade transit the Suez Canal and call at one of the large transshipment hubs at the northern end of the Canal, or further on in the Mediterranean. Their containers are transshipped to feeder vessels that serve the Mediterranean ports or relayed to vessels that cover the next stage of the journey. RoRo services could be competitive on short sea routes to Europe.

24. *Rail services* - **Rail freight transport is negligible** (other than for Jordanian and Syrian phosphate exports). Rail services in the Mashreq region are underdeveloped but could provide shorter times and comparable costs for routes to Europe. Within the Mashreq countries, many of the transit distances are too short for rail to be competitive with road transport. Combined road/sea services between Iraq and Europe have the potential to offer shorter times and lower costs than all-sea or combined road-sea alternatives.

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[7] Latakia, Tartus, Tripoli, Beirut, Aqaba, and Um Qasr

25. While there are extensive plans to revive the rail network in Mashreq countries and to connect them to the expanding network in Saudi Arabia and to Turkish railways for connections to Europe, it is yet unclear whether all such investments would be financially viable. Nevertheless, as the relative cost of fuel increases and emission standards are tightened, the competitiveness of the rail routes will be enhanced, particularly for long distance transport between Europe and the Gulf ports and possibly Aqaba.

26. *Trucking services* - Although Mashreq countries have a relatively good road infrastructure, trucking services are unsatisfactory because of the continued use of outdated vehicles, excess capacity and an inappropriate industrial structure of the road freight industry. Road transport has the potential to be the least cost alternative and the fastest time mode for most freight movements between Mashreq countries. Yet, significant restructuring of road freight industries is needed for this potential to be realized. Improvement in trucking services has a greater potential to better facilitate trade than most other proposed measures, and therefore merits most attention.

27. Some efforts to improve trucking services have been initiated, such as combining regulatory reforms with financial incentives. Jordan has been the most successful, in this regard, and has achieved a significant modernization of its fleet and provision of better services for international trade, and Syria has recently signed a memorandum of understanding with the IRU to review its international trucking services.

28. *Cross border procedures* - Despite a simplification of customs procedures and reduced clearance times, **the efficiency of the Mashreq cross border procedures are falling behind those of its trading partners and neighbors**[8]. This is due to a slow and ineffective introduction of risk management, little effort to monitor the performance of customs at the border, and insufficient improvements of facilities at the border crossings. Rather than reducing inspections and increasing the proportion of cargoes cleared on submission of documents, the approach of customs is often to use risk management as an additional level of control. Many of the Mashreq countries face significant challenges, due to extensive misrepresentation of cargo type and value by traders and customs brokers and widespread corruption. There has been limited effort to break out of the heavy handed and largely unsuccessful mechanisms of enforcement, through physical inspection. Only minimal efforts have been initiated to introduce risk profiles and collaboration with large shippers, such as the Authorized Economic Operators program.

29. *Coordination between border agencies* within countries is still in its early stages and behind that of competing countries. **Even the idea of "one-stop border agencies" is still largely limited to concentration of customs procedures** in a single location rather than a similar concentration of all border agencies in the same location.

30. *Transit regime* - Together with inefficient trucking industries, the associated transit regime is probably the most important impediment to the integration of the Mashreq region and to the improvement of its trade competitiveness. Despite existing bilateral MoUs aiming at facilitating transit, transit movements within the Mashreq region remain cumbersome because of the processing of documents and the operation of convoys. Replacement of convoys by electronic tracking offers an acceptable alternative.

31. Although Mashreq countries allow some imports to be cleared internally, the imports move under customs supervision from the border to the internal clearance center. Some of these movements are now made by GIS monitored trucks rather than the inefficient convoy systems used until very recently. A

[8] Many measures to address these deficiencies have been taken in the last twelve months

similar change has been made for customs supervision of transit trucks in Jordan and more recently in Syria[9].

32. *Trade facilitation services* - Customs brokerage and freight forwarding services are not evolving in pace with traders' demands. Little has been done to professionalize customs brokers and the forwarding industry continues to be small. Large trading enterprises still rely on international forwarders and brokers. The introduction of Asycuda World, which allows traders to enter their own data in the customs document system, provides an opportunity to reassess the role of customs brokers.

33. *Free trade zones* - Although some Mashreq free trade zones have managed to attract manufacturing and distribution industries, the region still lacks an effective distribution center for import goods or for their reprocessing into value-added export products. There are programs to develop production clusters for both domestic markets and exports in all Mashreq countries but Jordan has progressed to implementation while the other countries are still in the planning stage.

Recommendations

34. Broadly, the recommendations are similar to those made by other studies over the last two decades. The originality of the recommendations made here lies in the idea of developing an international trade corridor management system whose objective is to increase trade facilitation through a north-south corridor with linking east-west corridors. The World Bank and the European Union have both acquired extensive knowledge of the institutional corridor management arrangements that work best under different conditions. Recent initiatives to establish sub-regional committees of transport ministers within the Arab League have a similar objective of addressing trade facilitation issues. The corridor management proposal of this report builds on these experiences and initiatives.

35. Other recommendations are proposed at a country level, but with the objective of increasing trade within the region and between the region and the rest of the world. In many instances, these recommendations aim at facilitating imports more than exports, since most trade facilitation barriers relate to imports. Nevertheless, if a country implements such measures in isolation, it will not only reduce import costs but also increase import volumes. Only if the country's trading partners implement comparable trade facilitation measures, will the first country see a reduction in its export costs and an increase in its export volumes.

36. Consequently, the recommendations are presented in a regional context, and more specifically in relation to the key trade corridors. These corridors account for most of the trade between the Mashreq countries and provide essential links to the intercontinental trade routes that link the region to the rest of the world.

[9] As from January 1st, 2011

Short-Term Recommendations

37. Many of the short-term actions are already being implemented, but at a national rather than a regional level. Since similar actions are being executed in several Mashreq countries, the principal short-term action needed is to secure a greater regional coordination between the content of the actions and their timing, in order to maximize their benefits. The short-term recommendations are mostly policy related, but also include some investments in border crossing facilities and their equipment and preliminary analyses for future infrastructure investments with a regional rather than a national rationale.

Modernization of Customs and related services

38. *Updating of customs data system to Asycuda World* - Jordan, Lebanon, West Bank and Gaza and Syria have already embarked on this process, but are at different stages of progress with Jordan being the most advanced. Technical assistance would be provided to develop a coordination center to facilitate harmonization between the Asycuda systems for all Mashreq countries that use this system.

39. *Common standards for favored trader status* - Many developed countries (including the EU and the US) have established favored trader regimes, through which goods of selected traders are not subject to the same level of inspections as those of other traders. Several Mashreq countries have established "Golden Lists" of traders with similar privileges. However, with the exception of Jordan, the standards required for entry to the list, and the penalties for non-compliance, are too low for the lists to be acceptable to other countries. Although initial moves have been taken in the last twelve months to increase the requirements for entry to the Lists, technical assistance would be provided to enhance coordination and contribute to faster integration of the Lists of all Mashreq countries.

40. *Time release studies* – Few comprehensive time release studies[10] have been conducted in Mashreq countries. Technical assistance would be provided to undertake them where they have not been made, or not made recently, for their results to complement those of the Trade and Transport Facilitation Audits results and thereby to offer better guidance on border management enhancement.

Regulation and competitiveness of logistics and transport services

41. *Common standards for service providers* - Transit traffic movement between the Mashreq countries, and between them and the EU and the GCC countries, requires traders to rely on a compatible quality of service from freight forwarders, customs brokers, logistics providers, and trucking companies in each country. Technical assistance would be provided to facilitate increased training for Mashreq service providers in order to bring them up to international standards.

42. *Harmonization of standards for imported goods* between Mashreq countries is weak, with widely different acceptance of quality certificates issued by laboratories and agencies in other countries. Technical assistance would be provided to encourage greater acceptance of certificates of other countries and thereby reducing the time until the imported goods are released.

Transport infrastructure

[10] These time release studies show how long various border activities contribute to the time border agencies take to release goods to their owners

43. *Border crossings* - The physical facilities at most border crossings need upgrading and expansion, since most of them were not built to accommodate the current volume of cross border trade. The recently upgraded and reorganized border crossings between Syria and Turkey, with most of the infrastructure investment being made by a concessionaire, offer a best practice example for all land border crossings within the Mashreq region. Pre-feasibility studies of infrastructure improvements to border crossings between Syria and Lebanon have been completed, as well as those related to the main crossing between Jordan and Iraq. Technical assistance would be provided to complete the feasibility studies for these and other border crossings, in addition to financing to implement civil works and procure equipment.

44. *Review of completion and upgrading of the North-South railway* - Although UNESCWA and other regional agencies strongly support the north-south railway, its potential to compete for the expected traffic has not been so far assessed. Technical assistance would be provided to assess this potential.

45. *Upgrading of roads in the North-South Corridor* - Each country's priority for road investment is different, but Syria and Jordan (at least) need to coordinate better in order to maximize their joint benefits from the north-south corridor. Jordan is well advanced on planning for upgrading the final road section to its border with Saudi Arabia. Syria is well advanced in planning for upgrading major sections of the North South road within its borders. Technical assistance would be provided for completing feasibility studies of these upgrades and financing would be offered for civil works.

46. *Upgrading of roads in East-West Corridors* - For the east-west corridors, the situation is rather different as Syria and Jordan are competing for the same traffic. Jordan has completed designs for its main road link to Iraq, while Syria has completed pre-feasibility studies for upgrading its road links to Iraq. Lebanon has almost completed upgrading much of the road link from Beirut to the nearest border crossing with Syria, although upgrading of the most difficult section has not yet started. A missing section of the northern access road to Beirut that would be part of another east west corridor is still to be funded. Partial funding for a Damascus ring road that would reduce delays to trucks using both the north south and east west corridors is included in the current Syria Five Year Plan. Technical assistance would be provided to complete the feasibility studies and financing would be offered for civil works.

47. *Regional trade hubs* - All Mashreq countries are proposing large port investments, with each of the East Mediterranean ports striving to achieve the status of regional hub port. This could result in over-investment as suggested by experience in other regions. Lebanon, Syria, and Jordan aim to fulfill a more productive role than just acting as transit country between Europe and Iraq and the Arabian Peninsula. Therefore, in addition to creating hub ports or transit interchanges, all three countries are considering creating opportunities that would stimulate more value added activities which could best associate with their hub port or freight interchange. Technical assistance would be provided to assess the commercial advantages of different locations for regional hub ports and associated trade hubs.

Institutional development

48. In mid 2009, the Ministers of Transport of the Mashreq countries met in Amman in response to the call of the Arab League to speed up progress in trade and transport facilitation. Building on this initiative, a **corridor management system** could be created to oversee the development in trade and transport facilitation in the corridors considered in this study. The system could eventually include representation of all countries connected by the corridors, the five Mashreq countries and in addition Saudi Arabia, the Gulf States and Turkey. The first steps towards the creation and the development of this system would be to determine further its objectives, its responsibilities, and its membership.

Medium-Term Recommendations

Modernization of Customs and related services

49. *Greater coordination between border customs agencies* - As Asycuda World is being more fully implemented, it creates opportunities for data exchange between customs agencies of neighboring countries. Technical assistance would be provided to implement and/or expand a system of data exchange to further reduce document clearance time.

50. *Greater integration of land border crossing procedures* - Each country has much to gain by improving integration of its land border-crossing procedures with those of its neighbors. While there are proposals for the creation of common single border crossing facilities between many pairs of Mashreq countries, implementation of such facilities in other regions has proven difficult. However, the common use of existing facilities, such that each country's facilities are used for both export and import in one direction and the other country's facilities in the other direction has proven to achieve most of the benefits of a single facility. Technical assistance would be provided to design feasible and efficient integration of border crossings between countries, whether through new or existing locations of facilities.

Regulation and competitiveness of logistics and transport services

51. *Expansion of the TIR scheme* - The TIR is a system of bonds, operated in nearly 70 countries, that guarantees that any customs and other duties will be paid on goods transported in transit trucks. Syria, Jordan, Turkey and Lebanon are the only countries of the region that are part of the TIR system. Technical assistance would be available to increase their use of the system and to facilitate the entry of countries bordering the Mashreq region to enter, or possibly to design and implement an alternative.

52. *Reregulation of trucking industries* - Inefficiencies in the trucking industries in all Mashreq countries contribute tremendously to the costs of trading between the countries. Technical assistance would be provided to facilitate the restructuring of the trucking industry. This could include the establishment of training schemes for trucking companies and their drivers and testing systems for trucks to enable them to comply with safety and environmental standards. Reregulation of trucking industries would be designed to replace ineffective and inefficient regulatory systems with those that would create trucking industries that could better serve the needs of international traders without imposing unnecessary burdens on companies in the industry.

53. *Commonality of truck standards* - In recent years, UNESCWA and the Arab League supported several initiatives to harmonize truck design and operating standards. Technical assistance would be provided to improve implementation of these standards.

Infrastructure investment

54. *Upgrading the North South railway* - If the studies undertaken in the short-term indicate the feasibility of the project, further technical assistance would be provided to assess a preferred method of operating the railway and for securing a combination of public and private funding for its implementation.

55. *Upgrading of roads in the North-South Corridor* - Financing would be provided for those road investments that were identified as financially and operationally viable by the short-term studies.

56. *Coordination of port investments* - The implementation of all the currently proposed port and regional hub projects will not be financially feasible. Technical assistance will be provided to review the compatibility of these proposals and assess the preferred priorities for implementation.

Institutional development

57. The operation of the **corridor management system** could start in the medium term, once the necessary international agreements have been concluded. The responsibilities of the system could include managing the simplification of land border procedures, making the application of trade and transport regulations more compatible between countries linked by the corridors, and phasing infrastructure investments to realize the greatest overall net benefit.

I. INTRODUCTION

1. Although trade facilitation does not have a generally accepted definition[11] it usually entails simplification and streamlining of trade-related procedures. These procedures relate not only to the movement of goods, but also to the flows of information and the financial resources involved in the trading of those goods. While this study provides an assessment of trade facilitation and transport infrastructure between Mashreq countries, and between them and the rest of the world, it also presents recommendations for solving major outstanding issues. While trade facilitation and transport infrastructure have been the subject of several previous studies (some of which are reviewed in Chapter 2), many of the most pressing issues remain yet to be addressed.

2. The analysis and assessment presented are the result of the use of two analytical tools:

- a review of previous studies of trade facilitation and infrastructure for the country and the region;
- the conduct of new logistics Audits in three of the selected countries - Jordan, Lebanon and Syria.

3. These Audits were conducted using a pilot of the revised Trade and Transport Facilitation Audit Toolkit[12]. The Audits provided a structured framework of interviews with representatives of private and public participants in the trading process. The private sector participants included exporters and importers and their representative agencies (such as Chambers of Commerce and Chambers and Institutes of Trade), and the providers of transport and logistics services (trucking companies, customs brokers and freight forwarders). The public sector participants included customs agencies and others requiring border inspections, and government agencies responsible for the regulatory and institutional framework which govern trade procedures (such as the Ministries of Finance and Trade), and for the provision of transport infrastructure (such as the Ministries of Transport and Planning).

4. These interviews helped gain a broad understanding of the various facilitation and transport impediments to increased trade and the participants perceptions of the actions needed to reduce them. Two types of Audit are available from the revised Audit Toolkit: (i) a Phase 1 Audit, which aims at identifying major facilitation issues and infrastructure constraints, and measures to address them. It involves between 15 and 30 interviews, and (ii) a Phase 2 Audit that is based on analyses of supply chains, and could involve up to 100 interviews.

5. Because of the limited time and resources, the Mashreq Audits were limited to Phase 1 and included about 20 interviews in each country. To supplement the routine Audit interviews, meetings were held with officials from UNESCWA, EU, and the Arab League as well as consultants working with Customs on the introduction of ASYCUDA in the three Audit countries. Although it was not possible to carry out Audits in the West Bank and Gaza or Iraq, results from other recent trade facilitation studies that used similar analytical tools were available.

6. The analyses of these Audits largely supported the findings of many other studies. As they were undertaken at the same time for the three countries, it was possible to put their findings in a sub-regional

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[11] The Global Enabling Trade Report 2009, page 83, World Economic Forum 2009

[12] The original Trade Facilitation Audit was introduced in 1999 and focused on issues related to customs procedures; it was used in more than 40 countries. The new version covers more topics and provides an extended analytical framework. Following its pilot use in this study, it was substantially revised and published by the World Bank in June 2010 under the title Trade and Transport Facilitation Assessment: A Practical Toolkit for Country Implementation. The word Audit was changed to Assessment to avoid comparison with financial audits

context. This resulted in the addition of findings related to the sub-region in addition to those for the individual countries. These findings, as well as those of earlier studies are reported in more detail in Chapter Three and in Annex Two.

7. The report has four chapters (including this Introduction) and four Annexes. The next chapter presents a review of some of the most important previous studies; the third provides a description of the current extent and patterns of Mashreq trade, and how they would change if trade facilitation and transport infrastructure impediments were to be reduced; the fourth chapter assesses the main challenges in logistics services, customs procedures, and transport infrastructure that remain to be tackled; the final chapter presents recommendations and an action plan to reduce facilitation and transport infrastructure barriers to bring about an increase in trade within the Mashreq countries, and between them and their near and not so near neighbors.

8. A first Annex of the report comprises five country chapters, each offering a short description of each country's main trade routes, its main trade facilitation and transport issues and presents recommendations on how to address them. The second Annex provides a list of recent studies and reports on the topic in the sub-region, and provides references for the studies reviewed in Chapter 1. The third Annex gives a more detailed assessment of current Mashreq trade volumes and patterns, and a preliminary estimate of the cost savings and trade volume increases that could result from implementation of the recommendations of this report. The final Annex offers a summary of the rankings of the logistic performance of Mashreq countries by selected international agencies.

2. REVIEW OF PREVIOUS STUDIES

9. Many recent studies on trade facilitation for the Mashreq Region as a whole, or for groups of Mashreq countries, are available together with a wealth of other studies for particular Mashreq countries. Most of these studies covered trade between Mashreq countries and the rest of the world, yet few, with some notable exceptions, covered trade between Mashreq countries. These studies identified the key trade facilitation issues of the region and provided many practical solutions to address them.

10. While some of the solutions have been implemented, and some with significantly positive outcomes, the majority of them have not passed the proposal stage. Therefore much still needs to be done. One of the reasons for the paucity of implementation has been the lack of an overall action plan that goes beyond listing proposals. Another reason is that trade, even between neighbors, remains a two way process. Unless there is parallel action by the trading partners, the benefits of actions undertaken by one would be limited. So achieving the full benefits of the proposed actions requires a concerted action on a regional basis.

11. The most active agencies in the production of studies related to trade facilitation in the Mashreq region are UNESCWA, the Arab League, the European Union, and to a lesser extent, the World Bank.

12. UNESCWA has written extensively on the standards used to guide an integration of regional transport and trade facilitation. It has assessed the benefits of the common transport area of Jordan, Syria and Lebanon and in the process, identified the key corridors that have been adopted by the current study.

13. The EU reports have been produced mostly as part of the Euromed project, which provides details on the available multimodal routes and corridors and their advantages within the broader context of both transport efficiency and the environment. This project has also assessed the need for logistics platforms within the region.

14. The World Bank has conducted a study on the reduction of costs of trade because of the Pan-Arab Free Trade Agreement. It has also performed supply and value chain analysis in Syria and Lebanon; it has also produced a number of studies related to borders and access for West Bank and Gaza culminating in an examination of the Rafah Corridor.

15. Other agencies and organizations, such as USAID have prepared reports on specific aspects of trade facilitation. USAID in particular has sponsored studies that examined the supply chains in Jordan and Palestine.

16. The review of studies is presented in the following four sections. The first section covers some general studies on trade facilitation in the region, the second and third sections present more specific studies by UNESCWA and the European Union, and the fourth section deals with some of the relevant studies undertaken by the World Bank. A list of the specific studies reviewed is presented in Annex 2.

General Studies

17. A report by the IMF, *Trade in the Mashreq: An Empirical Examination* was completed in 2001. It examined international trade of the Mashreq countries with the rest of the world but not trade between them. The analytical method used in the analysis was based on a multi-variable production function on a gravity model that included a power function of distance as an explanatory variable.

18. A 2005 report by the WTO, *Role of WTO in trade facilitation in the UNESCWA Region* reviewed the Organization's work in trade facilitation with a particular attention to the situation of trade facilitation in the UNESCWA region. The study also provided an analysis of the developments in the multilateral negotiations concerning trade facilitation based on a survey of member countries submissions. The last part of the study reviewed trade facilitation issues in the Arab countries and highlighted the efforts made to improve and reform trade and customs regimes and infrastructure.

UNESCWA Studies

19. *UNESCWA is by far the most active agency in advancing the* cause of trade and transport facilitation in the region. For more than a decade, it has been a consistent and forceful proponent of measures to improve trade and transport facilitation. It would be presumptuous to attempt to review all the work and the actions undertaken by this agency in just a few pages. Instead, we only focused on the main messages presented and its most notable achievements in respect to Mashreq countries. UNESCWA's mandate covers a much large region than just the Mashreq countries, so we have reviewed only on its activities relevant directly relevant to them.

20. Its activities have ranged from providing regional transport strategies to assessing the specific facilities in individual countries. One of the most useful was an *Evaluation of the Benefits of a Common Transport Area of Jordan, Syria and Lebanon* presented at the Second Mediterranean Transport and Logistics Forum in Barcelona in 2004. In this assessment, UNESCWA evaluated the economic benefits of implementing a number of specific transport integration measures, in five corridors crossing the three countries. The measures included pre-arrival procedures in port, activities within the port and customs, the relationship between port and customs agencies, and for land and transit transport in particular, procedures at land border crossings. The review found that implementation of the measures could increase trade flows by more than 2% per year and bring economic benefits of the order of U$600 million per year.

21. At a presentation in Piraeus in September of 2008, UNESCWA described its *Regional Trade Facilitation Strategy* and some of the regional agreements it has helped to bring about. Its strategy was described as the development of a Regional Integrated Transport System, with three main components: improvements in transport infrastructure, improvements of trade flow operations including logistics and ICT, and legal and administrative reforms. The UN Conventions that UNESCWA mentioned as being part of this strategy, were the Agreement on International Roads in the Arab Mashreq (2001), the Agreement on International Railways in the Arab Mashreq (2004) and the MOU on Maritime Cooperation in the Arab Mashreq (2005). The presentation also drew attention to ten major trade and transport facilitation recommendations, endorsed by member states and Arab Region Transport Unions and the nine Trade and Transport Facilitation Committees, established in member countries. In respect of these Committees, UNESCWA provided in 2002 a manual providing guidance how they should be established.

22. An Inter-regional forum on *Trade Facilitation and Regional Trade Agreements* was organized in 2007 by UNESCWA in Amman, Jordan. Participants were from the Mashreq countries, regional UN agencies (ESCWA, ECLAC, ECE, ESCAP, and ECA) and non-Mashreq countries (Zambia, Ethiopia, Cote d'Ivoire, Thailand etc). The presentations were related to the importance of trade facilitation, the structure of regional trade agreements, the role of ICT in trade facilitation and "Single Windows." The forum was aimed at creating a consensus on what needed to be done rather than stimulating actions to bring about the necessary changes.

23. UNESCWA also produced its 5th and 6th Annual *Reviews of Development in Globalization and Regional Integration in Arab Countries* in 2006 and 2007.These reviews provide statistics and assessments of current regional trade patterns of Arab countries, including trends for the period 1998 to 2006. Syria, Jordan and Lebanon are the Arab countries with the highest share of regional to foreign trade. The same countries also score highly (in the top five Arab countries) on the Regional Integration Index. The Review also provides statistics and an assessment of developments in transport (road, rail, maritime and air) infrastructure and services.

24. Taken together, with the other activities for which we do not have space to detail, these activities represent a major contribution to the advancement of trade facilitation in the region, and must be largely responsible for the growth in intra-regional trade (both in absolute terms and as a share of total international trade) that has accelerated in the Mashreq countries over the last decade.

European Union Studies

25. The EU has been another major contributor to understanding the issues of trade and transport facilitation in the region and providing solutions. While its intervention has not been as sustained as that of UNESCWA, given the more extensive resources available, its long term impact might be as great that of UNESCWA.

26. The main EU contribution has been through the EuroMed and associated projects (such as the Motorways of the Sea), which culminated in a series of reports published in 2004. These reports, summarized in its *Regional Action Plan for the Mediterranean Region* (2006), covered major regional integration themes, individual country trade facilitation analyses, and included a large number of technical papers. These included pre-feasibility some studies of possible investments that could stimulate trade between the EuroMed countries. Some of the projects covered by these studies are now being implemented using funding available through the EIB.

27. One of the main recommendations of the EuroMed studies was to give greater prominence to maritime transport, as efficient in transport terms and more efficient in environmental terms, than competing transport modes. The "Motorways of the Sea" concept aims at introducing new intermodal maritime-based logistics chains in Europe, which should bring about a structural change in transport organization. These multi-modal transport chains will be more sustainable, and should be commercially more efficient, than those of road-only transport routes. Development of the Motorways of the Sea is seen by the EU as being of significant advantage to trade between the Mashreq countries and those of the European Union, given that the distances involved are too long for road transport to be effective and rail transport would require a level of cross-country cooperation that does not so far exist.

28. Another recommendation from the EuroMed[13] studies is the promotion of logistics platforms comprising freight distribution centers, storage and warehousing, container load consolidation centers. They can also include more industrial value added activities from their imported components, such as final assembly of completed items. The Action Plan notes that such platforms are particularly missing in the Mashreq countries, despite the significant advantages they can bring to trade competitiveness.

29. The European Union's Institutional and Sector Modernization Facility (ISMF) completed a study in 2008 of the measures and investments needed for Syria to better facilitate multi-modal transport. The study covered ports, railways, air freight, road freight transport, dry ports and other multi-modal facilities.

[13] Regional Action Plan for the Mediterranean Region, 2006, page 114

Its coverage of the non-investment issues has been of the same transport modes, but less detailed in its specific recommendations. The recommendations of the study provide a comprehensive view of the investments and institutional changes needed to make multi-modal transport more efficient in Syria. Some prioritization of investments and actions has been made, based on how easy they are to implement and how much they would cost.

30. The most recent relevant European Union report is on Road and Rail Facilitation and Cross Border Pilot Projects.[14] It covers Egypt and Israel as well as Jordan and the Palestine Authorities and many of the same topics as covered here. Its recommendations also reflect those made here

World Bank Studies

31. The World Bank studies have been of two types. The first relates to broad trade topics relevant to the Mashreq region as a whole, and the second to individual Mashreq countries. The latter have focused on supply chain analyses for particular types of products from which conclusions that are more general have been drawn to improve logistics services. Studies of this type have been made for Lebanon, Syria and Jordan, while another has compared the status of supply chains in Jordan and Egypt. Two studies have been conducted on how to improve access of the West Bank and Gaza to international trade routes.

32. A 2008 World Bank report, *Regionalism and Trade Facilitation*, is an example of the first type of study. It provided a review and an impact assessment of some regional trade agreements. It observed that a few of them proposed measures related to regional trade facilitation, but acknowledged that trade facilitation measures were more effective when they were included in regional trade agreements than when they were proposed as stand-alone measures. The report did not deal explicitly with the Greater Arab Free Trade Area or the Mashreq countries.

33. The World Bank recently published an *Assessment of Changes in Cross-Border Trade Costs in the Pan-Arab Free Trade Area, 2001*-2008. It evaluates the benefits of the 2005 Pan-Arab Free Trade Agreement (PAFTA) in terms of cross-border trade. The assessment was based on interviews with 300 trading companies in nine member countries (including Lebanon, Jordan and Syria). It compared the companies' assessment of trading conditions at the end of 2008 with those revealed in a previous assessment made in 2001.

34. The assessment suggests firms perceive PAFTA as being beneficial due to the removal of tariffs on intra-PAFTA trade. It also reveals a marked improvement in customs clearance-related procedures, with a substantial decline in the number of required documents and signatures, a significant reduction in the variance of clearance times, and fewer firms reporting having to make informal payments (bribes) to officials. Only a minority of respondents reported having problems with rules of origin (13 percent), substantially fewer than those perceiving arbitrary customs valuation and costs associated with enforcement of product standards to be a problem.

35. In 2001, tariffs were ranked as one of the most important barriers to intra-regional trade; in 2008 they were ranked least important. Instead, transport-related infrastructure and trade facilitation were

[14] Draft Final Report on Road and Rail Facilitation and Cross Border Pilot Projects, EuropeAid Co-operation Office, European Commission, A3 - Centralised operations for Europe, the Mediterranean and Middle-East, November 2010

ranked as the most important constraints. The assessment concluded that further action was needed to reduce trade costs associated with trade facilitation, enforcement of standards and other non-tariff policies. The survey results are provided for five cross-border issues:

- customs clearance and documentation
- bureaucratic "red tape"
- trade costs
- bilateral trade barriers and
- benefits of PAFTA to their businesses

36. In relation to customs clearance and documentation, Syria was identified as the country requiring the most signatures, but still far fewer than in 2001. In respect of product standards, exports to Jordan were found to be among the most difficult with compliance cost of the order of 15% of the value of the products. Most companies trading with Syria considered there to have been a significant reduction in the difficulties in dealing with bureaucratic issues, whereas traders to Jordan and Lebanon identified no significant improvement. Respondents from all countries considered that costs associated with road transport were the most onerous, followed by transit and maritime transport, with costs associated with import procedures to be less significant. This contrasts with the situation in 2001 when importing associated costs were the most important, followed by domestic taxes and public sector corruption.

37. While Saudi Arabia was considered the country which still imposes the greatest constraints on cross-border road transport, Syria was considered the second worst on this issue, followed by Jordan (equal with Egypt). The most binding constraints in dealing with Syria were informal payments during inspections, charges for transit convoys and technical requirements in excess of international norms.

38. Respondents from all countries mentioned respect of rules of origin to be a problem with trading with the UAE and Saudi Arabia, with North African countries, in particular, often rejecting rules of origin certificates issued by those two countries. There was frequent mention by correspondents from all countries of the lack of transparency in the rules of origin of the PAFTA.

39. One of the earliest of the country studies was that of the *Trade Competitiveness and Logistics Sector of Syria* undertaken in 2003. Its focus was more on trade facilitation and it did not consider transport infrastructure or transport services. It did however give considerable importance to the quality of transport and logistics services in its analyses and recommendations.

40. The following year, a report was prepared (but not published) on a *Trade Facilitation Audit for Lebanon*. The methodological approach used was that of value chain analysis. The production and transport of a selected small number of typical goods to their final destination was examined as a way of identifying trade facilitation, logistics and transport impediments that could apply to a broader spectrum of products. The goods selected for this study, were canned hummus, wine, fruits and vegetables, bananas, oranges, wood cutting machinery, and ready-made chairs. The Audit included an assessment of some transport and logistics issues and concluded with an Action Plan ("to regain the competitive edge"). Unfortunately, the resumption of war between Lebanon and Israel as the report was being issued so changed the trading environment as to make the Action Plan irrelevant to the new regional political reality.

41. The World Bank has produced two reports on trade facilitation in Palestine. The first, *West Bank and Gaza: Palestine Trade and West Bank Routes*, was produced in a draft version in April 2008. This report provides descriptions of the movement of freight within the West Bank, access to and through Israel and of external routes to third country destinations. It concludes with suggestions for how access to

the West Bank could be improved, mostly through changes in the way the Allenby Crossing (between Israel and Jordan) functions. Although the most significant changes would need to be made by Israel, some of them, to be taken independently by the Palestinian Authority and the Government of Jordan, if implemented would still bring about significant improvements in access to the West Bank. The second report, *Potential Alternatives for Palestine Trade: Developing the Rafah Trade Corridor*, was produced in draft in March 2007 and focuses on what could be done to create an alternative route for trade to the Gaza through Egypt.

42. Two other World Bank studies of the second type have provided comparisons of the logistic performance of Jordan with other countries, again using a supply chain approach. The first was *Trade Logistics in Jordan and Egypt*, and the second *Trade Logistics in Developing Countries: the Case of the Middle East and North Africa*. The second compared Jordanian logistics with those of Egypt and Yemen. The studies relied on interviews with exporters in three industries, garments, printed materials and processed food, and provided comparisons of the time to complete export orders from the time they were received and the logistics costs involved in that compliance. The Jordanian food exporter was found to depend on air freight services as the land and maritime alternative could not comply with strict time constraints of the order. The logistics cost makes up almost 50% of the order value. The printing company imports all its materials from Europe via Aqaba and has to keep an inventory of 60 days of paper and other material. To meet its delivery schedules at an acceptable price, it exports completed books and journals via Haifa, at a cost equivalent to nearly 10% of the total value of the order. The Jordanian garment manufacturer also ships the finished product via Haifa, this time to New York, and incurs just under 7% of the order value in the process.

3. TRADE VOLUMES AND PATTERNS IN MASHREQ COUNTRIES

43. Three aspects of the international trade of the Mashreq countries are reported in this Chapter: (i) the total volumes of trade compared with a sample of similar countries; (ii) the countries with which the Mashreq countries trade, including the relative importance of trade between the Mashreq countries themselves; and (iii) the transport routes that are used for these trades. The base date for most of the analysis is 2005. Use of a different base year or an average of several years might result in different numeric projections but would be unlikely to change their implications for trade facilitation and infrastructure. For some of the analysis the data source is the World Development Indicators (WDI) database, while for others it is the World Integrated Trade Solution (WITS) or the IMF Development Outcome Tracking System (DOTS) databases. All of these are based the same IMF statistics, but there might be minor differences in projections derived from the WDI database compared with the WITS or DOTS database. Further, all of the databases might have slightly different data to other sources, such as the published national statistics of the Mashreq countries. The projections are not intended to be used as robust forecasts of the future international trade of any of the individual Mashreq countries, but rather as indications of the magnitude of the logistics task facing the region as a whole.

44. Mashreq non-oil exports, measured as a share of GDP, are only about two thirds of what might be expected given the average level of GNI per capita of each of the Mashreq countries. For the Mashreq region as a whole, Mashreq non-oil imports are about 25% higher than might be expected. In terms of patterns of trade, Mashreq countries trade more with EU countries than they do among themselves, but their intraregional trade is still higher than for some other trading blocs such as Mercosur and the GCC as well as being higher than for members of the PanArab Free Trade Area as a whole. The EU is the major trading partner of Mashreq, followed by the Gulf countries and Saudi Arabia. Much of trade with Asia flows via the Gulf countries. Mashreq's internal trade is a significant portion of its total trade and it is growing.

Volume of Mashreq Non-Oil Trade

45. The volume of non-oil international trade of the Mashreq countries, as measured as a percentage of GDP, is above the average for countries and groups of countries with a similar level of Gross National Income per capita.[15] Although the total trade for the Mashreq countries is above the average, the share of non-oil exports is below the average for nearly all the sample of comparable countries other than the major oil producers, while for non-oil imports the reverse is true.

46. For the Mashreq countries taken together, exports are only 21% of GDP compared with more than 30% for the Middle East and North Africa as a whole, and the average of Middle Income and Low Middle Income countries (Table 1). Jordan is an exception with non-oil exports, more than double the average of the other Mashreq countries. For each of the Mashreq countries, imports account for a much higher share of GDP than exports and for a higher share of GDP than the average of Middle East and North Africa and the average of Middle Income and Low Middle Income countries. This analysis indicates that the Mashreq countries have much to do to increase their trade competitiveness, both in increasing non-oil exports and reducing non-oil imports. The trade imbalance is least for Lebanon and highest for West Bank and Gaza (excluding Iraq which makes up much of the deficit with oil exports).

[15] Iraq, Syria and the West Bank and Gaza have GNI per capita similar to the average of lower middle income countries, while that of Lebanon and Jordan is higher than the average of middle income countries.

47. Jordan's total imports are about 72% by value of GDP, those of the West Bank and Gaza's total about 68%, and Syria's total only about 29%. Syria's and the West Bank and Gaza's exports account for only 11% by value of their respective GDP and the non-oil exports of Iraq account for an even smaller share at about 2%.[16] Lebanon's share at 21% is still slow in comparison to the other countries, and only Jordan with exports at about 53% of GDP is close to the other countries average.

Table 1: Non-Oil Exports and Imports as a share of GDP for Selected Countries (2005)[17]

	Exports	Imports	Non-oil Trade
Jordan	53%	72%	125%
Lebanon	21%	34%	45%
Syrian Arab Republic	14%	29%	43%
Iraq	2%	94%	96%
West Bank and Gaza	14%	68%	82%
Mashreq average	21%	55%	76%
Egypt, Arab Rep.	30%	33%	63%
Iran, Islamic Rep.	33%	25%	58%
Israel	43%	43%	86%
Kuwait	5%	28%	33%
Malaysia	94%	95%	189%
Mexico	27%	29%	56%
Saudi Arabia	6%	28%	34%
South Africa	27%	28%	55%
Tunisia	50%	50%	100%
United Arab Emirates	39%	71%	110%
Middle East and North Africa	35%	33%	68%
Lower middle income	35%	33%	66%
Middle Income	33%	30%	63%
Average	55%	44%	99%

Source: IMF DOTS

Trading Partners and Types of Trade

48. The EU is the major trading partner of the Mashreq countries, accounting for more than 25 per cent of exports and rather more for imports.

Table 2: Direction of Mashreq Trade (2007)

Region/Country	Exports to	Imports From
EU	25.3%	28.0%
GCC	6.8%	17.3%
Turkey	2.0%	9.1%
Saudi Arabia	2.6%	18.8%
CIS, Russia, Ukraine	0.7%	13.6%
Mashreq	17.1%	26.8%
Other	46.3 %	66.2%

Source: IMF DOTS

[16] Iraq's GNI and oil exports have increased significantly since 2005, the base year for the data reported here.
[17] This data excludes petroleum based trade, included in subsequent tables

49. The GCC is the next in importance with nearly 7 per cent of Mashreq exports and about 17% of imports. Only about half of the imports from GCC are non-oil products, and a large share of the value of these is of Asian origin.[18]

50. Lebanon has the largest proportion of imports from the EU, over one third, and Iraq the least, about 14 per cent. Jordan has the largest percentage of imports from the GCC, about 25 per cent, comparable to the percentage of imports it receives from the EU. Iraq has the largest portion of its exports going to Europe but this is primarily crude oil. As for imports, it receives about the same proportion from Turkey (nearly 20%) as from the Mashreq countries and double that of the Mashreq as a whole. Syria still has significant trade with the CIS, Russia and Ukraine, which together account for about 20% of its imports but just 1% of its exports.

Table 3: Intra-Regional Trade as a Share of Total Foreign Trade

Region	% share 2006
NAFTA	67.9%
European Union	64.6%
ASEAN	25.7%
Mashreq	17.1%
Mercosur	16.0%
Arab Counties	11.3%
GCC Countries	5.8%
Iraq	2.6%
Jordan	19.5%
Lebanon	30.7%
Syria	42.3%

Source: UNESCWA Annual Review of Developments in Globalization and Regional Integration in the Arab Countries, 2007

51. The intra-Mashreq share of its non-oil trade is comparable with that of the Mercosur trade block of South America, but less than that of ASEAN, and much less than that of the more formalized trading blocks of the EU and NAFTA. Intra-Mashreq trade is higher than the average intra-regional trade of members of the Arab League and much more than that of the countries of the GCC.

52. There are significant differences between the Mashreq countries in their shares of intra-regional trade. Syria has the highest share of intraregional exports (about 42% of its total) mostly to Iraq and Lebanon, while its intraregional imports are much less (only about 13% of its total). Lebanon also has a high share of intraregional exports (about 30% of its total) but this is nearly all to Syria with only small shares to Iraq and Jordan. Iraq, Jordan and Lebanon source only small shares of their imports (about 2% for each of them) Iraq has the least trade with the region because of the dependence on the US, Turkey and the Gulf for much of its imports.

[18] There is a widely held belief in the Mashreq countries that some imports from the GCC do not fully satisfy the requirements for local content to qualify as GCC products. Some Mashreq countries now require that all imports from Asia come through a national port.

Table 4: Intra-Mashreq Share of Total Trade by Value (2007)

Country	Exports	Imports
Lebanon	30.7%	12.9%
Jordan	19.5%	3.6%
Iraq	2.6%	1.6%
Syria	42.3%	12.8%
West Bank and Gaza	0.1%	0.3%

Source: IMF DOTS

Current Intra-Mashreq Traded products

53. The non-oil products traded between the Mashreq countries are mostly a mixture of manufactured and food products, supplemented by some minerals and cereals. Iraq has no significant non-oil trade with the Mashreq countries, and the West Bank and Gaza have virtually no exports to the other Mashreq countries. For the other three countries, Syria has the largest share of exports to the others (about 60% of the total) with the remainder shared almost equally between Jordan and Lebanon. Syria's exports are also more diversified than those of the other two countries, with 50% more products having an export value of more than U$1 million in 2007.

54. Syria's exports to Jordan are mostly manufactured products, with man-made filaments being the most significant single product (more than 15% by value) followed by machinery (10%) and cereals (9%). Its exports to Lebanon are quite different, with dairy products being the largest category (about 14% of the total) followed by soap and other organic products (13%) and animal fats (10%). Other significant exports are iron and steel products (9%) and plastics (also 9%). Oil derivatives, which for many years were the most significant Syrian export to Lebanon, fell to less than U$ 2m as Lebanon now only uses unleaded gasoline which is not produced in Syria.

55. Actual exports from Lebanon to Syria are believed to be higher because of smuggling. Although obstacles to foreign trade have been significantly lowered in Syria in the last few years, customs tariffs remain high on many consumer goods and smuggling from Lebanon therefore remains high. Lebanon's registered exports to Syria are mostly minerals, cement, stones and salt (more than 27% of the total), followed by paper products (10%) and oils and resins (8%). Significantly, no manufactured products figure prominently in Lebanese exports to Syria. However, Lebanese exports to Jordan are more diverse and more industrialized, with paper products accounting for 12% of the total, followed by wood (9%) and plastics (8%) and iron and steel being the fourth most important product (6% of the total).

56. Jordan's exports to Lebanon are dominated by pharmaceutical products (more than 22% of the total) and aluminum products (15%), followed by vegetables (also 15%), paper products (9%) and fertilizers (5% of the total). Jordan's exports to Syria are even more dominated by vegetables (almost 50% of the total) with machinery (10%) being the only other significant product.

Future Trends of Trade for Mashreq Countries

57. Over the next 10-15 years, the growth in overall trade for the Mashreq countries is expected to be modest, but significant growth in exports is expected (Table 5). The projections are based on an assumption that the export and import share of trade as a percentage of GDP will tend towards the current average for Middle Income and Lower Middle Income countries, and that the rate of growth of GDP itself will be in line with extrapolations of the short and medium term World Bank projections (except for Iraq

for which independent projections have been made)[19]. The share of exports and imports that are traded inter-regionally is projected to trend towards the current shares of ASEAN. This implies that trade shares with other regions, such as the EU, are projected to decline despite a growth in their absolute amount. Trade with Asia is also expected to increase significantly but from relatively low levels at present

Table 5: Projected Non-Oil Trade for Mashreq Countries (U$b)

Year	Exports	Imports
2005	27	217
2015	54	239
2025	100	277

Source: Authors

58. The region is expected to develop a significant export trade in fruits and vegetables. This will require an improvement in logistics so that the countries can deliver higher value food products to markets in Europe and the Gulf. These include fresh and table-ready products. Improved logistics will also be needed in order to develop large efficient processing facilities.

Table 6: Projected Destination of Exports in 2025 by Value

From/To	EU	GCC	Turkey	Mashreq
Iraq	5%	0%	2%	25%
Jordan	10%	19%	5%	38%
Lebanon	20%	24%	5%	40%
Syria	20%	12%	10%	45%
West Bank	1%	1%	0%	16%

Source: Authors

59. It is also expected that Jordan and Syria will experience growth in clothing exports, especially Syria, which will take advantage of its local supplies of cotton. In order to compete in this global industry, both countries will have to establish viable niches. There is some question as to whether the current special arrangements between Jordan, Israel, and the US are sustainable. At the same time, it is unlikely that either the countries can compete in basic contract manufacturing against lower-cost producers and Asia. So Jordan is likely to compete more in higher value garments which have a greater fashion component and are produced in small order sizes. To be competitive in the garment market, both countries will need a substantial improvement in their logistics, both inbound for the supply of accessories and synthetic materials and outbound for direct delivery to retail outlets.

60. Another product in which increased trade is expected is industrial equipment. This will build on current small-scale activities in the fabrication of appliances and basic machinery where the principal market is other countries within the Mashreq region. Jordan's success in developing a pharmaceutical industry producing for distribution in the region suggests that other Mashreq countries could also identify niches for consumer products. Growth in the export of these products will depend on efficient cross-border movements as well as improved logistics for the delivery of the import inputs to allow just-in-time production.

61. Trade in consumer goods already dominates in terms of value, with most of these goods moving in containers. In the future, these shipments will also dominate in terms of volume as shown in Table 9. This is even more pronounced when Iraq's oil shipments are excluded.

[19] See Annex 3 for details

Table 7: Projected Volume of Mashreq Trade (Exports plus Imports)

	2015		2025	
Country	**Bulk m tons**	**Loaded Containers m TEU**	**Bulk m tons**	**Loaded Containers m TEU**
Iraq	22.4	1.6	32.3	2.1
Jordan	2.7	0.7	3.4	0.8
Lebanon	1.4	0.5	2.3	0.8
Palestine	0.5	0.1	0.5	0.1
Syria	1.2	0.7	1.9	1.1
Total	28.3	3.6	40.4	4.9

Source: Authors

Trade Routes and Corridors

62. Most of the Mashreq region's external trade involves three distinct markets, Europe, the Gulf, and Asia. Each presents a unique challenge not only because of their geographic location but also because of the limited modal choices available. Asia is served by maritime routes, the Gulf primarily by road and Europe by road and sea. All three markets can be served by airfreight but at considerable expense.

63. The study has identified potential improvements in the performance of logistics services in corridors that connect the Mashreq countries to each other and link their gateway ports with regional markets and production centers. Growth in trade volumes in these corridors needs not only improved logistics, trade facilitation and infrastructure but on successful integration with the more extended international routes of which they are part.

64. The main corridors that connect the Mashreq countries to each other and to the longer routes linking to the rest of the world are:

- a **North-South Corridor** that links the EU via Turkey, Syria and Jordan to Saudi Arabia and the Gulf States, with connecting links to Lebanon and Egypt;
- a group of **East-West Corridors** that link the Mashreq ports of Latakia, Tartus, Tripoli and Beirut and the Jordanian port of Aqaba via Syria and/or Jordan to Iraq;

The North South Corridor has received considerable attention from UNESCWA and it is a combination of several of their designated highways and railways.[20] The highways are M45 from the Turkish Border with Syria and on to Amman, then M35 from Amman to Riyadh, then the M90 to Qatar and M5 to Dubai and Muscat. There would be side connection via M80 to Beirut. The railway corridor would be Route 25 from Turkey to Amman via Damascus. From Amman it would link with a new Jordanian railway connecting to the recently announced 2,400km railway linking Saudi Arabia's bauxite and phosphorus mines in the far north with planned Gulf coast processing and export facilities at Ras Al-Zour on the Arabian Gulf, and from there to the GCC railway. The other railway corridors that would form part of this corridor include R30, R80 and R90. Although the main role of the corridor from Aqaba to Iraq is for East-West freight, it also has potential for the transport of North-South freight.

65. The East- West corridors present a more complex situation than the North-South corridor, as most of the East-West alternative routes compete for the same traffic. The main northern alternatives are from the Syrian ports via Aleppo to northern Iraq. The central alternatives are from the Syrian and Lebanese

[20] Agreement on International Roads in the Arab Mashreq, 2001 and Agreement on International Railways in the Arab Mashreq, 2003

ports via Aleppo and/or Damascus to southern Iraq. The southern alternative is via Aqaba and Amman also to southern Iraq.

66. All the East West corridors are currently served by road. Many of the road projects are already under execution or at least have their funding arranged. Syria is already upgrading the deficient sections of its road links in the East West corridors, with a priority on the road to the Iraq border at Attanf. Funding for substantial further work on roads to the borders at al Yarubia and Abu Kamal is included in the current Five-Year Plan. The road linking Aqaba and Amman to Iraq needs upgrading and road in the corridor from Amman to the Mediterranean ports will soon need capacity expansion. The Jordanian Roads Master includes a major upgrading of the existing road from Amman to the Iraq border and completion of upgrading of the road to the Saudi border. Lebanon is in the process of upgrading the road links from Beirut to Syria via Masnaa (although the most difficult section remains to be addressed) as well as the road links from both Beirut and Tripoli north to Syria (again with the most difficult section remaining to be addressed.

67. There is a rail link in the northern corridor that connects Latakia and Tartus to Baghdad via Aleppo. In June 2009, a container service was inaugurated on this corridor, but to be commercially viable the infrastructure requires significant upgrading (included in the Syria Five-Year Plan), the volume of traffic needs to increase and the management and operation of the railway requires a commercial vision. Syria is completing the rail link from Deir-el-Zour to its border with Iraq at Abu Kamal in the central corridor. The result will be higher quality and shorter rail distances from the Syrian ports to destinations in southern Iraq. The only rail infrastructure in the southern alternative is a narrow gauge line between Ma'an and Aqaba that is used mostly to transport phosphate exports. Jordan's Rail Master Plan includes standard gauge rail links from Amman to Iraq, from Amman to the borders with Syria and Saudi Arabia, and between Amman and Aqaba. When completed, the result of the rail development will be Jordan's connection to its neighbors with high quality and high capacity rail links.

Routes to Europe

68. For trade with Europe, there is a complex multimodal network providing a variety of routes, most of which makes some use of one or more of the internal North South or East West corridors. The principal land route is the road connection between the North-South corridor to Istanbul and onward to Europe. Iraq also has a connection directly with Turkey to link to this route. An alternative land route is the rail connection from Istanbul to Western Europe. There is a long outstanding proposal to complete the rail connection via Syria and Jordan to Saudi Arabia and on the Gulf States via the GCC railway.

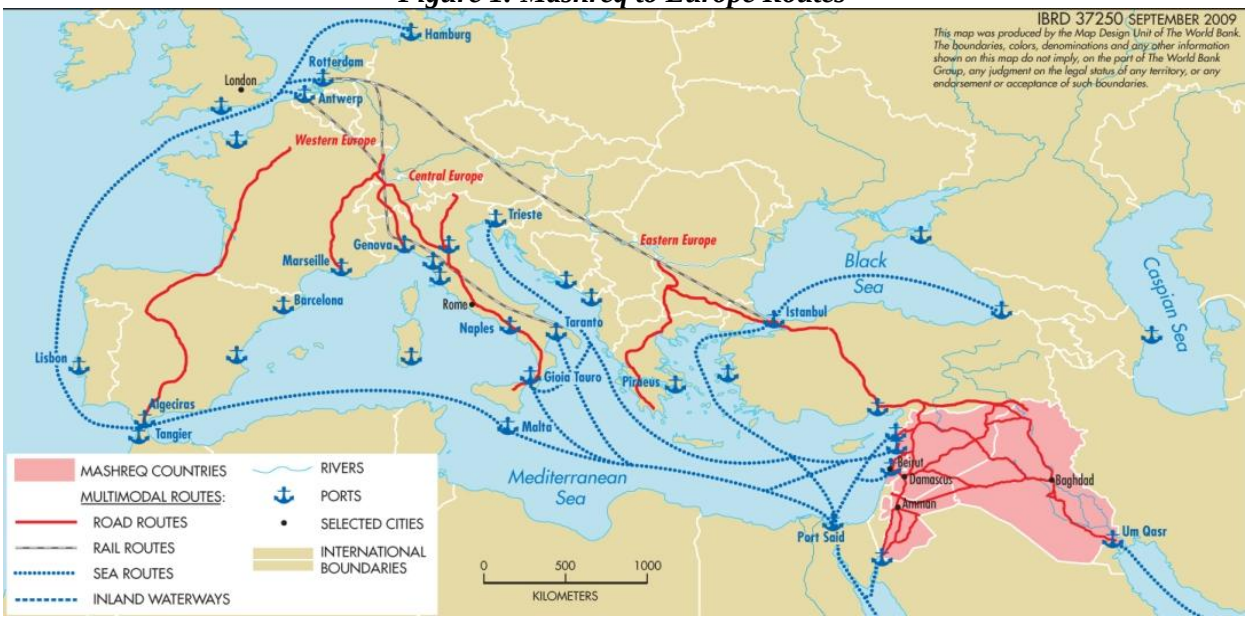
69. The maritime routes include short sea routes from the Mashreq ports to nearby Mediterranean ports in the Aegean Sea and Italy, and longer sea routes that extend through the Mediterranean and into the North Atlantic for connection to the ports of Western European and on into the Baltic Sea. The longer routes include some direct services to Northern European ports but most require a connection at one of the central Mediterranean ports in Turkey, Greece, Italy, Spain, or even Egypt, with a mainline global route. These global routes also permit exchanges with feeder services from the Mashreq Mediterranean ports to those on the Red Sea and the Persian Gulf. The high frequency of the feeder services can provide a more efficient connection than the few direct services between Northern Europe and the Mashreq countries. Exceptions are Southern Jordan, which is better served through Aqaba, and Southern Iraq, which can be served through Um Qasr.[21] Because the dominant flow of cargo is westbound, these routes

[21] The choice of route for shipment to southern Iran is currently determined by uncertainty of transit time, security risks and level of corruption. It is presumed that as the economy in Iraq recovers, the choice of route will be determined by normal considerations of cost and time for transit.

involving mainline vessels are more costly for the Mashreq exports and more attractive for imports. Regional and short sea services, on the other hand, have the dominant flow eastbound and thus offer attractive rates for exports from Mashreq. A similar situation applies for services between Europe and the Gulf.

70. The choice between land and sea route depends on the relative importance of time, cost and reliability for the goods being shipped. The road routes are less reliable. The maritime services operate to fixed schedules, but the land routes have uncertain border crossing times, especially within the Mashreq area. The maritime routes are more attractive for origins/destinations that are near to the port and for goods that cannot tolerate the one month transit time needed for road routes. Road transport offers an advantage in both time and cost for shipments to and from Eastern Europe, because of the proximity to the Mashreq countries.

Figure 1: Mashreq to Europe Routes



71. Although all of Europe can be served by road, destinations beyond Eastern Europe pay a high premium in terms of cost relative to maritime routes that is difficult to offset by time or reliability. The premium is less for westbound road movements since the dominant flow is goods shipped from Europe to the Middle East.

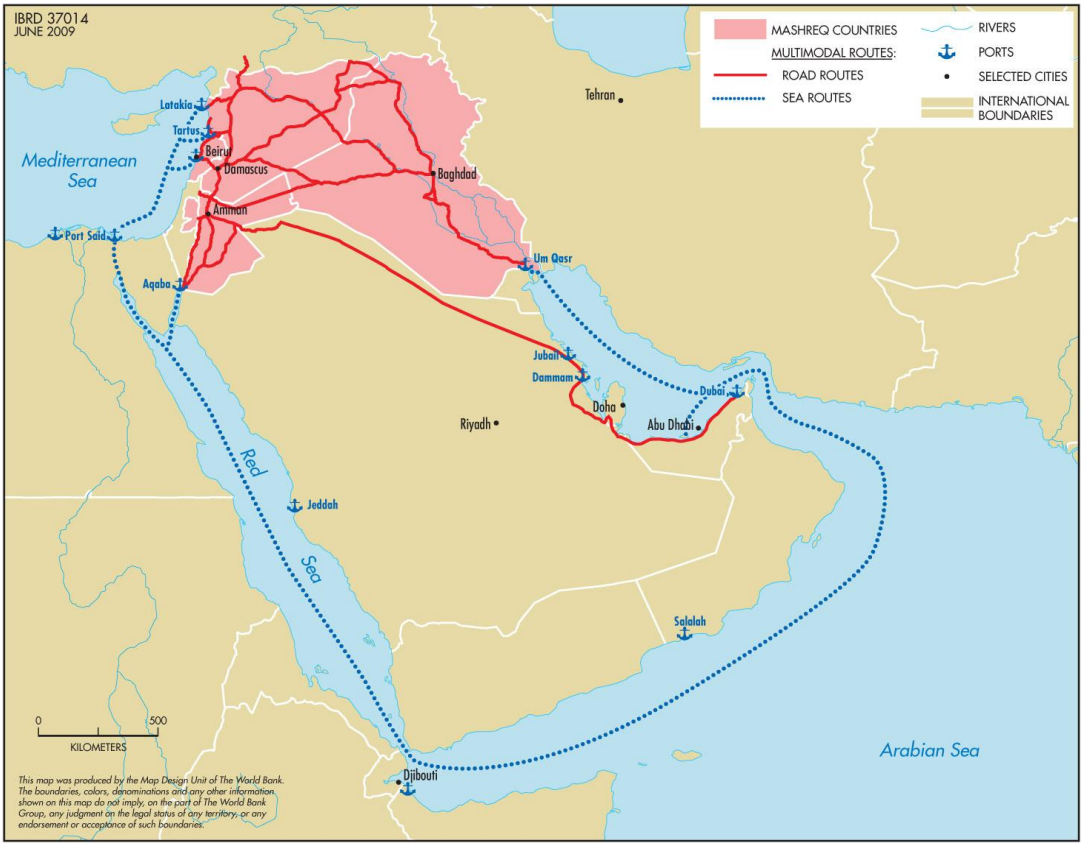
72. RoRo services could present an attractive option for connections to central Europe. They offer an interesting compromise in terms of a faster time than the all sea route and a lower cost than the all land route. These types of service have experienced strong growth in the Western Mediterranean (between North Africa and Southern Europe) and in the Black Sea, in addition to their traditional markets in the North Sea and the Baltic. They currently transport the equivalent of about 21 million truck loads annually. RoRo services have been slow to develop in the Eastern Mediterranean because they require sufficient volumes to support frequent service and must have fast turnaround times at the loading and unloading ports. This implies development of facilities and procedures including customs clearance which can allow cargo to transit the port in less than a day and for vessels to turn around in less than six hours.

Routes to the Gulf States

73. For trade from the Mashreq countries to and from the Gulf, the principal route is the North-South Corridor through Syria, Jordan, and Lebanon connecting with an East-West corridor through Saudi Arabia. From Iraq to the Gulf, there is a second north-south corridor from Baghdad through Kuwait.

74. Despite uncertain border crossing times, especially when entering Saudi Arabia, the road route is much faster (less than one week) than the alternative maritime route (up to two weeks). Also the door-to-door costs including port charges and trucking at both ends adds significantly to the cost of the maritime route.

Figure 2: Mashreq to Gulf Routes



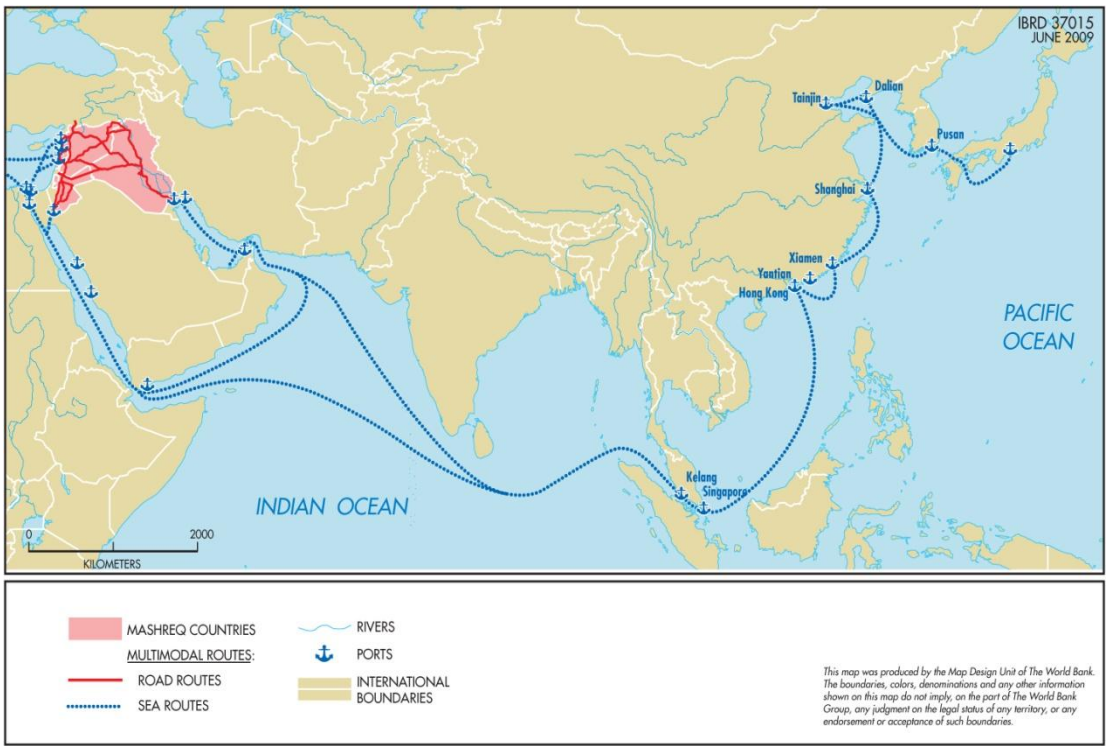
75. This is especially true for Syria and Lebanon where the maritime route involves shipment through the Eastern Mediterranean ports and transshipment to a mainline vessel transiting the Suez Canal. Using road transport in the North-South Corridor to access shipping services from the Port of Aqaba will be costly and offer little time saving. The dominant flow is westbound (Gulf to Mashreq), so both routes offer attractive freight rates for Mashreq exports (Mashreq to Gulf).

76. For Iraq, the land route via Kuwait is more attractive in terms of both time and cost than a short sea route from Um Qasr, but may involve uncertainties at the border. But as the number of feeder services linking the lower Gulf ports with Um Qasr increase, there could be a growing diversion of shipments to the all sea route.

Routes to Asia

77. Most of the Mashreq trade with Asia uses all-maritime routes but there is also an intermodal route using road transport to and from the Gulf, primarily Dubai, which acts as a regional distribution center linking the land route to the Mashreq countries with the sea route from Asia. Another alternative, mostly used by Jordanian trade, is road transport to the port of Aqaba where there is a choice of several direct services to Asia. Selection of the most competitive route in terms of time and cost depends on the origins/destination within the Mashreq countries.

Figure 3: Mashreq to Asia Routes



The maritime routes to and from Asia serve all of the Mashreq ports either directly or via transshipment hubs in the Gulf, Red Sea and Mediterranean. For Lebanon and Syria, their ports are served by feeder vessels connecting with mainline vessels transiting the Suez Canal. These services offer both frequency of service and relatively short delays at the transshipment hub and are the most used. The difference in time and cost between using the Eastern Mediterranean ports and Aqaba are not sufficient to attract cargo to Aqaba except for shipments to/from Jordan. For Jordan's trade with Asia, direct services from Aqaba are now preferred to road transport to a GCC port with connecting maritime services. For Iraq, the choice of ports for shipments to/from Asia has been dictated largely by security concerns and informal costs and delays associated with Iraqi ports. Once these problems are resolved, most of its Asia trade is likely to use Um Qasr, with transshipment via a hub in the lower Gulf or along the coast of Oman.

Routes within the Mashreq Countries

78. Goods moving between the Mashreq countries move exclusively by land, almost entirely on the key corridors. The North-South Corridor serves mostly intra-Mashreq trade, while the East-West corridors are more oriented to trade between Europe and the Mashreq countries. In the future, they will be used for the expected high volume of non-oil trade between Iraq and the other Mashreq countries.

Figure 4: Mashreq Road Corridors

79. With the exception of one public company jointly owned by Syria and Jordan, all road transport on the key corridors is provided by common-carrier or by traders using trucks on their own account. Since most of the intraregional trips are short (less than 1,000 km), the trip time is determined largely by the time spent at the border crossings and in the urban areas where the cargo is picked up and delivered.

80. There is a rail connection in the North South Corridor, from south of Amman to Aqaba, but this is used mostly for bulk phosphate exports. The only other corridor with rail service is the East West Corridor from Latakia and Tartus to Iraq, but until very recently this was unable to offer a reliable service.[22] Most freight movements within Syria are too short for rail services to be competitive. There is growing interest in providing rail services for the length of the North South Corridor, but the services this could provide will be more oriented to long distance trade between Europe and the Mashreq Countries, the Gulf and the Arabian Peninsula.

[22] A regular service between Aleppo and Baghdad was restarted in June, 2009

4. MAIN ISSUES

81. The review of previous studies of trade facilitation and the application of the Trade Facilitation Audits have revealed substantial progress in addressing many of the long-term facilitation issues, but also revealed the negative trade impact of the many issues that remain.

82. Trade in the corridors accounts for approximately 10% of the total trade of Jordan, Lebanon and Syria. A report by UNESCWA on six corridors in the Mashreq countries[23], that covered almost the same trade flows as those identified here, estimated that implementing a series of recommendations covering policies and procedures at ports, border crossings, customs, and on land transport and transit agreements (very similar to the recommendations made in this report) could increase the volume of trade in the corridors by more than 2% per year. When taken together with the cost savings to existing trade flows, there would be economic benefits of the order of U$600 million per year, based on annual corridor trade flows with a value in the order of U$2.6 billion per year. That is, implementing trade facilitation measures could reduce the transit costs international trade by almost 20%.

83. The logistics services, customs procedures and transport infrastructure available within the Mashreq region to support international trade have improved significantly over the last five years, but more rapidly in some countries than others:

- Ports have improved their performance and the availability of shipping services has increased;
- The trucking industry has been partially restructured in Jordan and this can provide some guidance on how it can be restructured in Lebanon and Syria. The Iraqi trucking industry faces many challenges before it can reach the efficiency of the Jordanian industry;
- Rail freight transport is negligible (other than for Jordanian phosphate exports), but there is renewed interest in developing rail infrastructure and services throughout the region;
- Largely based on initiatives from USAID, UNCTAD and the EU, customs reforms have accelerated. All the Mashreq countries have ambitious plans to build on these reforms such that the region has the possibility to reach industry best practice within a short time;
- Regional efforts in border management and transit movements have not kept pace with customs reforms but the recent replacement of transit convoys with GPS monitoring in Jordan is an indication of what can be achieved;
- Customs brokerage and freight forwarding services are not evolving in pace with traders demands. Little has been done to professionalize the customs brokers and the forwarding industry continues to be small, enterprises relying on linkages with international companies;
- The development of Free Trade Zones has continued but with the exception of the QIZ[24] in Jordan, do not appear to have been effective in attracting FDI and developing new export activities.

Gateway Port Services

84. The six Mashreq ports[25] are all of medium-size, and experienced strong growth in container traffic and a significant increase in productivity during the last decade. As the traffic continues to grow, a

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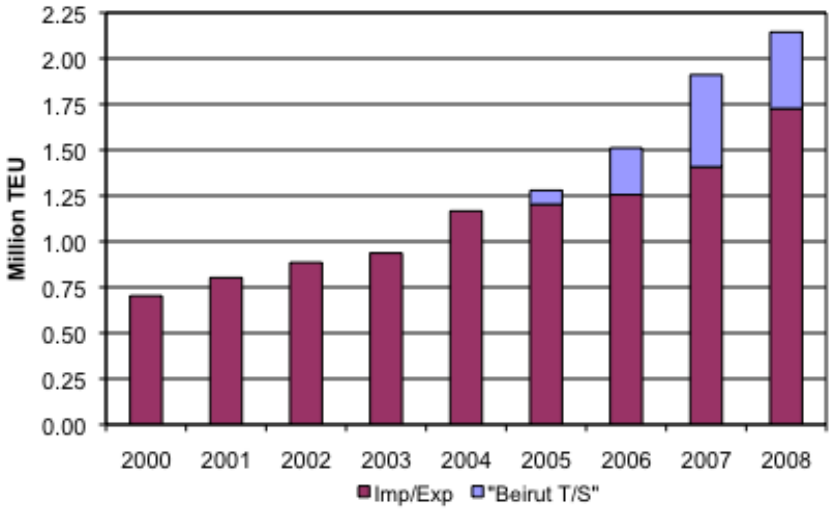
[23] UNESCWA Study on the Economic Benefits of a Common Transport Area between Jordan, Syria and Lebanon, presented at the 2nd Mediterranean Transport and Logistics Forum, Barcelona, 2004

[24] Qualifying Industrial Zones (QIZ) are designated geographic areas that enjoy a duty free status with the United States. Companies located within such zones are granted duty free access to the US markets, provided that they satisfy the agreed upon Israeli component in pre-defined rules of origin.

main challenge for the region will be to establish a hub port and a regional distribution center to complement an inland center in the south of the region. Door to door times from cities in the Mashreq region are at least one week even to the closest destinations, and about one month for the longer routes to Asia.

85. Each of the ports of the Mashreq countries handles less than one million TEU each per year. They serve mostly as feeder ports but are attracting an increasing number of direct services. They handle some transshipment containers but only in the case of Beirut are the volumes significant. With the exception of Um Qasr, they have facilities and draft able to accommodate vessels up to about 4,000 TEU[26] although Beirut, Latakia and Aqaba are being expanded and will soon be able to accommodate larger ships.

Figure 5: Mashreq Port Container Traffic



86. The Mashreq ports have experienced strong growth in container traffic with volumes tripling over the last eight years. However, when the transshipment cargo is excluded, annual growth has been just under 12% (Figure 5), which is still strong but not so spectacular. Beirut experienced a significant jump in traffic because of capturing relay shipments for both CMA CGM and MSC container lines, but its domestic traffic grew at only 9%.

87. Latakia had the highest growth averaging about 14.5% per year followed by Aqaba with about 13.4%. If the current growth rates continue, then traffic will double in the next 5-8 years and these ports will each handle more than one million TEU. This will mean not only larger vessels but also more direct services. Traffic levels at Tartus and Um Qasr have fluctuated with little underlying growth. Latakia has captured most of the container traffic with Tartus focusing on bulk cargoes (but this may change following the concessioning of its container terminal). Um Qasr handles mostly of military and project related cargo. It deals with increasing commercial cargo, but suffers from inefficiency and corruption as well as siltation of its access channels. Various proposals for dealing with these problems have been

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[25] Latakia, Tartus, Tripoli, Beirut, Aqaba and Um Qasr

[26] The typical draft is in the range of 11.5-12.5 meters versus 14.5-16 meters for the larger European ports. The depth of Um Qasr is listed at 12.5 meters but the approach channel is 9.1 meters at low water and the channel and port area requires continual dredging

proposed, including the construction of new ports as alternatives, but as of writing, none has been confirmed.

88. The Mashreq ports other than Um Qasr have increased their container handling productivity, as a result of investment, in additional infrastructure and the transfer of terminal operations to private operators. There are now firm proposals for development of Um Qasr or even a new port of Fos that will make it easier for Iraq to catch up with the other Mashreq and Gulf ports in terms of productivity. As the trade continues to grow, it is probable that one of the ports will develop into a regional hub for the Mashreq countries. The characteristics required of such a port are very demanding, not least in terms of the land space required, if it is to be supported by industrial value adding activities. It will also need land access to major transport corridors without being enclosed within a built-up urban area. For maritime access, sufficient natural depth in the access channels will be needed to avoid the need for costly dredging. Finally, it needs to be on or very close to a major intercontinental shipping route. None of the six ports fulfill all these requirements, so the port that can do most to amplify its advantages and minimize its disadvantages has the greatest chance of success. All of the ports are looking to Iraq to generate large volumes of cargo and catapult them into regional hub status, but the outcome will depend as much on the efficiency of the inland connections and land space available as on the efficiency of the port operations.

89. While there is consideration for deepening these ports to depths comparable to the larger ports in the Mediterranean and North Europe, this is unlikely to affect the type of vessels and services calling at these ports in the medium term. Their locations along the coast of Eastern Mediterranean make it unlikely that they will be able to attract significant transshipment cargo for other regions (such as the Black Sea). This implies a continuing dependency on the domestic markets to generate sufficient volumes to attract direct services from Europe and Asia, which would both reduce the cost of transport (by utilizing larger vessels) and reduce the transit time (by avoiding transshipment).

Table 8: Physical Characteristics of Regional Ports

Port	Container Berths (m)	Draught (m)	SSG cranes	Channel (m)	000 TEU/SSG	TEU/m Wharf	Operator
Beirut+	600	15.5	5	15.2	190		IPM, Portia
Latakia++	800	12.3	4		140	700	CMA-CGM
Tartus	540	12-13	2	14.5	20	80	ICTSI
Aqaba	540	10.5	3		140	800	APM
Um Qasr	~500	10.12.5	4				
Mersin	710	10-12	5		155	1100	PSA

+ new 700 meter wharf under construction
++ also 1334 m of mixed use

Maritime services

90. Most Mashreq international trade still uses feeder services that require transshipment at a hub port. This adds several days to delivery times. RoRo services could be competitive on short sea routes to Europe. The typical door-to-door transit times via the Eastern Mediterranean ports are one month to and from Asia, three weeks to and from Northern Europe and two weeks to and from the Gulf. The two main challenges for shipping services are to minimize the time cargo spends in port, and to develop sufficient volumes of traffic to attract Ro-Ro operators. There are currently three types of container services to the Mashreq countries, direct, relay and feeder services:

- direct services to/from Asia and North Europe utilizing medium size vessels up to 4,000 TEU. At present, these are relatively limited. They are offered by shipping lines such as MSC which operate direct services in preference to large-scale transshipment operations,

- relay services in which containers are transferred between regional services at a common port on their respective routes. This is the type of service operated by CMA-CGM at Beirut,
- feeder services provided by the major shipping lines or by third parties such as United Feeder which offer slot charters to the major lines.

91. Most of the shipping lines serving the Asia-Europe trade transit the Suez Canal and call at one or two large transshipment hubs at the northern end of the Canal or further on in the Mediterranean. There containers are transshipped to feeder vessels that serve the Mediterranean ports or relayed to vessels that cover the next stage of the journey. For example, Maersk[27] shipping lines use Algeciras and Tangiers for distributing containers in the western Mediterranean and as relay ports for services to northern Europe and western Africa. Maersk uses Port Said as transshipment point for ports in Eastern Mediterranean. CMA-CGM has a similar arrangement with Malta and Tangiers as the transshipment and relay ports. Other global shipping companies rely on a single hub in the Mediterranean, for example, Evergreen uses Malta and the Grand Alliance[28] use Cagliari.

92. While all the East West corridors are still mostly served by road, there is already a rail link in the northern corridor that connects Latakia and Tartus to Baghdad via Aleppo. In June 2009, a container service was inaugurated on this corridor, but to be commercially viable the infrastructure requires significant upgrading, the volume of traffic needs to increase and the management and operation of the railway requires a commercial vision. Syria is completing its rail links to Iraq in the central corridor,

93. Typical trade times (including transshipment where applicable) for ocean shipping services are shown in Table 9. The port to port times are a high share of the door to door times for the longer routes, much less for the shorter routes. Even for the shortest routes, the minimum door to door time is more than one week and for the longer routes to Asia it is about one month. An emerging option is that of RoRo services in the East Mediterranean. For these to be successful in the Mashreq ports the time needed for clearing trucks out of the port needs to be dramatically reduced from the several days currently experienced, to a matter of hours.

Table 9: Transit Times (days) for Ocean Routes

	Port to Port	**Gate to Gate**	**Door to Door**
Beirut-Rotterdam	12-17	18-22	20-25
Beirut-Singapore	21-25	27-32	29-35
Beirut-Gulf	11-14	15-20	17-22
Aqaba-Singapore	16-19	22-28	24-31
Aqaba-Gulf	7-10	12-18	14-19
Beirut-Genoa	6	8	10-11
Beirut-Trieste	3	5	7-8

Source: Authors estimates based on information from traders and shipping agents

Rail Services

[27] The Maersk Shipping Line has about 500 container ships.

[28] The Evergreen Shipping Group is one of the four largest container shipping lines. It is based in Taiwan and has about 180 container ships. The Grand Alliance members are Hapag-Lloyd, MISC Berhad, Malaysia, Nippon Yusen Kaisha (NYK), Japan, and Orient Overseas Container Line (OOCL), Hong Kong. It has about 400 container ships.

94. Rail infrastructure in the Mashreq region is underdeveloped, but services operated on the expanded networks already under development or consideration could provide shorter times and comparable costs for routes to Europe. Within the Mashreq countries, many of the transit distances are too short for rail to be competitive with road transport. Combined road/sea services between Iraq and Europe have the potential to offer shorter times and lower costs than all-sea or combined road-sea alternatives.

95. The challenge is to develop services that meet the demand of modern freight transport and logistics. This will require a dramatic change in management as well as a significant investment in track and rolling stock. The rail system in Iraq includes about 1500 km of standard gauge track in varying conditions. The traffic volumes are limited, because of years of conflict and deteriorating condition of rolling stock. Jordan has one operating rail freight services. The Aqaba Rail Corporation transports minerals from the mines to the port of Aqaba, carrying about 3 million tons per year over a distance of about 280 km. Until recently, the Jordan Hejaz Railways (a public corporation) operated a passenger service and a daily freight train between Amman and Damascus. Syrian Railways (CFS) operates a network which includes about 1,700 km of standard gauge track. The principal line is 757 kilometers of track from the port of Latakia via Aleppo to the northeast corner of the country and on to Iraq. The railway also connects to the Turkish network and there are weekly services connecting Damascus with Istanbul and Tehran as well as a weekly service between Mersin and Aleppo. In 2005, CFS carried about 8 million tons of freight over an average distance of only 250 km. The volume of traffic, measured in annual ton-kilometers had increased by about 1/3 from 2000 after stagnating over the previous decade. The main movement of containers is between Aleppo and Latakia, now supplemented by the onward service to Baghdad.

96. There are extensive plans to revive the rail network in Mashreq and to connect to the expanding network in Saudi Arabia, predicated on the increased demand for trade with Iraq and capturing a share of the massive Asia to Europe container trade. As the relative cost of fuel increases and emission standards are tightened, there will be some modal shift from road to rail for longer distance cross-border movements. This could include shipments to/from Europe and movements between the ports and inland dry ports. However, these will require a dramatic change in management as well as a significant investment in track and rolling stock.

97. The enhancement of rail services implies shorter and more reliable transit times, uninterrupted cross border movements and seamless transfer to/from road transport for the final delivery. Implementing the changes needed to bring about these improvements will present significant challenges for regional rail operations. They will also require greater coordination between the national railways and a change from public service operations to commercial operations.

Trucking Services

98. Although Mashreq countries have a relatively good road infrastructure, trucking services are unsatisfactory because of outdated trucks and an inappropriate industrial structure of the road freight industry. Road transport has the potential for the least cost and fastest time mode for freight between Mashreq countries. Restructuring of road freight industries is needed for this potential to be fully realized.

99. Trucking services are provided by a combination of own account operators with medium to large fleets, and independent operators with small fleets providing third party transport. The trucks of the independent operators are relatively old and there is a substantial excess capacity. Lack of profitability and the absence of a substantial market for contract haulage (as contrasted with single shipments) have discouraged the development of 3rd party companies operating modern fleets and offering a higher

quality of service. The notable exception are the overnight freight services such as DHL, TNT and Aramex which offer a full logistics service.

100. Efforts to improve trucking services have been initiated combining regulatory reforms with financial incentives. Jordan has been the most successful in this regard and has achieved a significant modernization of its fleet. However, the development of sizeable commercial carriers continues to be hampered by low freight rates. Syria has dismantled many of the regulatory impediments affecting the carriage of imports and exports and there was a significant renewal of the fleet accomplished through Investment Law 10, but Syrian trucks continue to be excluded from the EU and Iraq and there are few large Syrian companies to engage the services of a large trucking company. Lebanon has not yet developed an effective program for renewal of its fleet and restrictions and excessive delays at border crossings (an average of seven days for inbound trucks) limit operators to short hauls which do not justify investment in larger vehicles. Iraq's trucking services have been provided largely through foreign contractors but there is now a re-emerging domestic trucking industry. Syria has recently entered into an agreement with the IRU for a review of the operation of its road freight industry with a focus on international road freight.

Customs Procedures and Border Management

101. Despite a simplification of customs procedures and reduced clearance times, the efficiency of the Mashreq customs procedures are falling behind those of its trading partners and neighbors. This is reflected in a slow and ineffective introduction of risk management, little effort to monitor the performance of customs at the border, and insufficient improvements of facilities at the border crossings.

102. There have been substantial improvements in cargo clearance procedures. In Syria, Jordan and Lebanon the introduction of a common Single Administrative Document for cargo clearance and the installation of the ASYCUDA platform for electronic processing have lead to a simplification of procedures and reduced clearance times. Efforts to introduce a similar capability in Iraq have been hampered by the ongoing conflict. Also it is unclear how much these changes have affected clearance operations at the border since most documents continue to be submitted in hardcopy and the communications between border crossings and headquarters is only partially implemented. While typical clearance times for imports have been reduced to a few days for cargo with proper documentation, this appears to have occurred through changes in the expectations of shippers and customs official as much as through any change in handling of documents.

103. While the fundamental component of customs reform, the introduction of risk management, had been slow and ineffective, in the last twelve months there has been a dramatic change. Previously, rather than reducing inspections and increasing the proportion of cargoes cleared on submission of documents, the approach of customs had been to use risk management to introduce an additional level of control. This has now changed in favor of recognition of the benefits to trade of improved facilitation on more effective risk management. While many of the Mashreq countries face significant challenges due to extensive misrepresentation of cargo type and value and widespread corruption, there are now increasing efforts to break out of the heavy handed and largely unsuccessful mechanisms of enforcement through physical inspection. Efforts to introduce risk profiles and to create collaborative efforts with large shippers such as the Authorized Economic Operators program have expanded rapidly and without the essential endorsement of senior Customs officials.

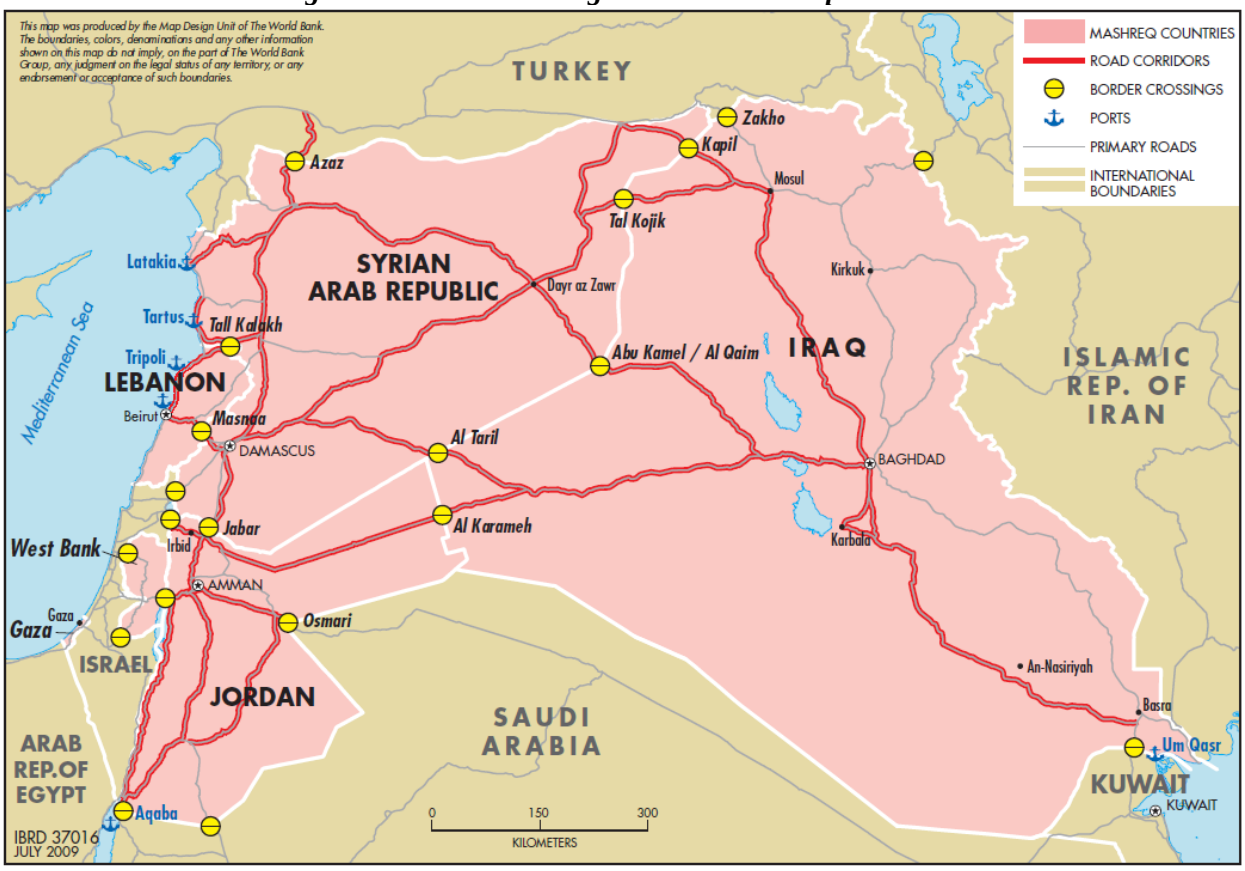
104. So far, there has been little effort to monitor the performance of customs at the border, either clearance times or detection rates. At the same time the demands for improvement in security and improved regulation of health and safety have created new challenges for border management. Scanners

have been introduced, but are used as an added layer of inspection rather than as a means to facilitate clearance. The other border management agencies have not yet introduced electronic processing of data or attempted to harmonize their forms with the customs. The customs database is only just being enhanced to include alerts from the other border agencies along with the tariff information sorted by HS code. As a result the non-customs procedures are making clearance at the border not only more difficult but less transparent and more subject to corruption.

105. Despite these difficulties, the introduction of a common platform and growing interest in cross-border movements has created an opportunity for a regional approach to expedited cargo clearance. In addition, the countries have accepted the concept of inland clearance of cargo thus creating an opportunity for expediting border procedures. The current constraint is the lack of a mechanism for efficient internal transit movements between the border and inland clearance facilities.

106. The facilities at the border crossings have been upgraded in recent years but require further improvements if they are to avoid the long queues that have already begun to appear at the less efficient crossings. The current traffic volumes are of the order of 500 trucks per day or less, so there should be little problem in processing them. The major crossings already have separate facilities for passenger vehicles and trucks, but most do not separate trucks according to condition (e.g. loaded, transit or empty), or control flows according to customs channels (green, yellow, and red). It is unclear whether current proposals to improve border crossings will be based on expectations of simplified and expedited clearance procedures and therefore focus on improvements in traffic flow or will re-enforce current procedures by increasing parking areas and introducing warehousing.

Figure 6: Border-Crossings between Mashreq Countries



Transit Regime

107. The existing transit regime is probably the most important impediment to the integration of the Mashreq region and to the improvement of its trade competitiveness, despite existing bilateral MoUs aiming at facilitating transit, transit movements between the Mashreq countries.

108. Since 2004, three Memoranda of Understanding (MoUs) have been signed between Lebanon, Syria and Jordan to facilitate transit traffic and in the last twelve months each of these countries has entered into agreements with Turkey to facilitate transit traffic. The first of these MoUs have been signed between Lebanon, Syria and Jordan to facilitate transit traffic. The first provided for a common carnet for vehicle transit, with different versions for cars, buses and trucks. The carnet did not guarantee the payment of duties and taxes, but simplified the documentation for a border crossing. The second consolidated a multiple transit charges into a single charge based on weight and distance. There was a provision for its elimination over five years but this has not been implemented. The third provided for harmonization of axle load and gross vehicle weight standards and a "fast lane" for refrigerated vehicles. However, transit movements remain cumbersome due to the processing of documents and the operation of convoys. Replacement of convoys by electronic tracking offers an acceptable alternative.

109. Although Mashreq countries allow some imports to be cleared internally and to move under customs supervision from/to the border, until 2011 this movement had be in a convoy. A similar restriction applies to goods moving in transit through the country. Following the precedent of Jordan, Syria has also introduced GIS monitoring of internal transit traffic and Lebanon is considering the same.

Free Trade Zones

110. Although free trade zones have managed to attract industries, Mashreq still lacks an effective distribution center for import goods, which would emulate and substitute for Dubai.

111. Programs exist in all the Mashreq countries to develop clusters that promote production for both domestic markets and exports. Jordan has the most advanced program while Iraq's is still in the planning stage. These government zones, and some private enclaves, have been effective in attracting industries but less so in developing exports production. The principal exception is the QIZ in Jordan which has a preferential arrangement with the US and is unlikely to be replicable or even sustainable. Less attention has been given to developing clusters for distribution of imported goods, both finished goods and inputs to production. As a result, Dubai with the ability to deliver high value goods with a one week order time serves as a distribution center not only for the Gulf but also for Mashreq.

112. This suggests that an opportunity exists to develop trade centers closer to Mashreq's markets with a delivery time of about three days. Efforts to create this type of activity in the Aqaba Special Economic Zone have not so far been successful, perhaps because it too far from large population centers.

5. RECOMMENDATIONS

113. Experience shows that collaborative governmental efforts to reduce trade costs by improving customs procedures and border management can minimize the trade-distorting impact of regional arrangements and facilitate regional trade. Logistical, institutional, and regulatory barriers now have a greater impact on trade than tariffs, and generate no offsetting revenue.[29] Moreover, reducing transport costs may have a higher payoff than reciprocal reductions in overt trade policy barriers.

114. Broadly, the recommendations presented here are similar to those made consistently by other studies over the last two decades. The innovative recommendation of this study lies in the idea of creating an international trade corridor agency whose objective is to increase trade facilitation through a north-south corridor with linking east-west corridors. Although the success of trade corridor agencies in other parts of the world had been mixed, the World Bank has acquired extensive knowledge of how those institutional arrangements work best under different conditions. Recent initiatives to establish sub-regional committees of transport ministers within the Arab League have a similar objective of bringing more attention to addressing trade facilitation issues. The corridor agency proposal of this report builds on this initiative.

115. The recommendations are first divided into short-, medium-, and long-term categories, and then sorted into four major topics:

- institutional arrangements,
- modernization of customs and related services,
- regulation and competitiveness of logistics services, and
- transport infrastructure.

116. Finally, eight sub-topics of recommendations can be distinguished as follows: (i) modernization of customs and improvement of border-crossings; (ii) regulation and competitiveness of logistics and transport services; (iii) multimodal freight transport (e.g. rail-road); (iv) streamlining of documentary requirements and information flows; (v) efficiency of gateways such as ports and airports; (vi) trade corridors and transit; (vii) transport security; and (viii) infrastructure investment.

117. Even though the recommendations have been developed at a country level, they will be implemented at the regional level, more specifically in relation to the key trade corridors, since their objective is to increase trade within the Mashreq region as well as between the region and the rest of the world. The corridors account for most of the trade between the countries themselves and provide essential links to the intercontinental trade routes that link the region to the rest of the world.

118. In many instances, the recommendations aim more at facilitating imports than exports, since most current trade barriers restrict imports. If one country implements such trade facilitation measures in isolation, this will not only reduce import costs but also increase import volumes. Only if the country's trading partners implement comparable measures at more or less the same time, will the first country see a reduction in its export costs and an increase in its export volumes. So, an equitable increase in regional trade is predicated on facilitation measures taken in parallel by trading partners. Actually, it is largely the failure of an institutional framework in implementing the needed changes to reduce trade facilitation barriers.

Short-Term Recommendations

[29] Chapter 1.8, The Global Enabling Trade Report 2009, page 84, World Economic Forum 2009

119. Some of the short-term recommendations are being implemented, but at a national rather than a regional level. Since similar actions are being taken in several Mashreq countries, securing greater regional coordination between the content of the actions and their timing is now the priority, in order as to derive maximum benefits from them. So, the short-term measures mostly relate to policy issues, but also include preliminary analyses for later infrastructure investments that have a regional rather than national rationale.

Institutional arrangements: Corridor Management

120. As the recommendations made in this report are closely linked to each other, they need to be implemented together to have maximum impact. Unless there is an institutional arrangement that oversees their implementation, such coordinated action is unlikely to happen. Experience in other trade corridors shows that a Corridor Management Agency can effectively bring about this coordination. It can ensure that the trade facilitation measures implemented in one country are supported by comparable measures in other countries in the corridor; it can also ensure that the actions within any country are implemented within a holistic framework. The coordination that such an agency can bring is particularly important in respect of transport infrastructure, where the investments of one country depend entirely for their success on the presence of comparable infrastructure in the neighboring countries along the corridor.

Objectives of corridor development

121. While there is a common objective of providing for efficient movement of trade, there are often broader economic goals that the corridor is meant to achieve. Some corridors have been developed to promote economic growth, others to increase activity at the international gateway at the end of the corridor. A corridor may also be developed to provide an international gateway for one or more landlocked countries. While there is often substantial trade between the countries through which the corridor passes, increased trade with third countries beyond the corridor is often another objective of increased efficiency within the corridor. Still other corridors have been developed as part of a broader effort to promote or expand an economic union. Promoting integration was the rationale underlying the development of the corridors in the Greater Mekong Sub-region, and Mercosur region, while expansion was the case for the extension of the TEN Network (Trans- European Transport Network) to Eastern Europe through the transport corridor Europe-Caucasus-Asia (TRACECA) in support of the EU enlargement.[30] Finally, some corridors have evolved with no objective other than to facilitate bilateral and multi-country trade that is controlled through back-to-back agreements.

Activities of a corridor management system

122. The activities of a corridor management system could include: planning and financing, legislation, regulation, operation, monitoring, and promotion of the corridor. While the system will be responsible for coordination and promotion, implementing specific actions will probably the responsibility of other agencies. The activities to be undertaken determine who are the participants and the most appropriate institutional structure.

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[30] The stated goals were specified as follows: smooth functioning of the internal market, strengthening of economic and social cohesion; and ensuring the sustainable mobility of persons and goods taking account of their comparative advantages.

123. The most important activity in corridor management is leadership. To be effective, the arrangements must have sufficient authority to obtain cooperation from the national public agencies that develop the infrastructure and facilities, prepare the trade and transit legislation, and formulate and enforce the standards and regulations affecting services in the corridor. This implies participation by relatively senior officials from either the executive or legislative branches of government. For bilateral or multilateral corridors, the leadership would have to be senior political officials from each of the participating countries with comparable status.

Organization of a corridor management system

124. The form of the organization depends on both the issues it will address and the period over which it is expected to be active. If the primary concern is with the legal component of the corridors, then it is likely that the organization would take the form of a standing committee within the legislature or a special section within the Ministries of Transport or Planning. The life of the organization would be linked to the time required to ratify the treaties and enact the legislation required to allow the corridor to operate, but is unlikely to extend beyond 1-2 years. Therefore, the organization should have a flexible structure relying on consultants or seconded staff for technical support.

125. If the primary concern is project development, then the tenure will continue through the planning and construction of infrastructure and facilities. If responsibility is limited to planning, then a task force or inter-ministerial committee, as have been established in Pakistan and India, would be the suitable structure. However, if the system is also responsible for construction, then a special department within a senior Ministry, e.g. Finance or Planning, would be more appropriate.

126. If the primary concern is operational, then a more permanent organizational structure would be required. At the same time, it would operate independently of Government. An association or commission could be set up if the system's primary duties are to monitor performance and promote the use of the corridors. If the duties include coordinating activities of public agencies, e.g. for upgrading infrastructure, contracting for construction and/or concession, then an autonomous authority will be more effective.

127. In all cases, the corridor management system should be a relatively small with a technical rather than administrative orientation but with leadership that is involved in public dialogue. The requirement to interact with a large number of political and private sector actors does not require size but rather flexibility. The same applies for the requirement to act across provincial and national boundaries. For the latter, working committees can be established with senior officials involved in trade and transport to focus on the legal components but the physical and operational components must be dealt with at a national level. The exception would be efforts to improve performance at the border in which case bilateral working groups can be established.

Models of corridor management arrangements

128. While it is not possible to completely control corridor development, it is important to have a single organization whose purpose is to promote and coordinate this development. Where corridors have been successful, there have been strong political and market support for their development. A corridor organization provides a point of focus for stakeholders' efforts and a forum for identifying major constraints on corridor performance. It also provides a focus for the lending programs of multinational organizations, which typically lend to individual line ministries. While there have been significant variations in approach to the development of international trade corridors, a limited number of models have been applied.

129. The history of corridor management is mixed. Large regional arrangements have proven more difficult despite the initial success of the TEN-T network in Europe.[31] The progress achieved by regional trade blocks such as GMS (Greater Mekong Sub-region), ASEAN (Association of South-East Asian Nations), SAARC (South Asian Association for Regional Cooperation) and CAREC (Central Asian Regional Economic Cooperation Program) has been limited because of the time required to reach agreement on protocols acceptable to all participants. Consensus can also yield more cumbersome procedures, as it was the case with the introduction of the ASEAN harmonized tariff, which is a far more complex structure than that of any of the member states. In this regard, bilateral arrangements have been more effective since it is easier to achieve consensus, pass legislation and harmonize physical standards, procedures and regulations. For example, ASEAN's member states have already developed bilateral arrangements that allow relatively unencumbered movements between Singapore, Malaysia, and Thailand.

130. Leadership in developing a corridor can come from different sources. For the TEN-T network, there was no separate organization to guide its development. Instead, it was developed through legislation formulated by the European Commission with implementation left to the responsible agencies in the member states. In most other corridors, the central governments have not offered direct legislative support but rather established or supported autonomous organizations that promote the development of the corridor. In this regard, high-level working committees are a popular mechanism but their effectiveness depends on their support staff. The function of these entities is quite diverse, reflecting differences in objectives and in the scope of the agreements that they are meant to support.

Some examples of corridor management agencies

131. TRACECA (Transport Corridor Europe-Caucasus-Asia), an intergovernmental ministerial commission, was established to implement the Basic Agreement signed in Baku in 1998. It receives some funding from the European Commission and member states, and with this it: (i) designs and funds small projects for alleviating bottlenecks in the network, (ii) conducts technical studies related to improving the efficiency of border-crossings, (iii) collects performance statistics, and (iv) organizes conferences to address issues related to the corridor. TRACECA is supported by a small secretariat that serves in a consultative role and staffed primarily by consultants. Since TRACECA operates on consensus, it is not able to respond rapidly to the problems involved in integrating corridors. Most improvements have been accomplished through the initiatives of national or local governments.

132. Development of the Can-Mex (Canada to Mexico) corridors was supported by US transport legislation that encouraged bilateral and multilateral efforts to develop corridors. This led to the formation of a number of regional lobbying groups to promote the development of specific routes and capture federal funds to upgrade the highways that make up these corridors. There appears to be no method for coordinating these proposals beyond the budgetary review process.

133. A different situation applies in West Africa, where there is no formal organization. The Economic Community for West African States (UN-ECOWAS) has taken the lead in efforts to facilitate cross-border movements but has been unable to get participating countries to develop regional agreements.

[31] The objective of the Trans-European Transport Network (TEN-T) is to ensure an efficient and reliable transport system by creating a standardized, multimodal network with regard to infrastructure, vehicles and traffic management. The network includes road, rail, water and air transport. Its success required more than ten years and the network was established on the back of efforts to develop a regional transport policy that spanned more than 40 years.

Instead, there have been some bilateral agreements. The major initiative was to have the Chambers of Commerce introduce a system for bonded movement of transit traffic similar to the TIR carnet (TRIE). This system, combined with the bilateral agreements, permitted the development of some transit routes, but traffic remains small because of poor infrastructure.

134. In East Africa, the Northern Corridor has a permanent organization, the Transit Transport Coordination Authority (TTCA), which has been in existence for many years. It was established to monitor the implementation of the agreement between Kenya, Uganda, Tanzania, Burundi, and Rwanda, and has developed into a relatively strong professional agency. It promotes procedures for more efficient cross-border movement of goods and is instrumental in introducing a single administrative document. It has also worked with Kenyan Customs to develop efficiency indicators.[32]

135. In Southern Africa, the Maputo Corridor is quite different in terms of organization and effectiveness. This corridor was established through a bilateral agreement between the Governments of South Africa and Mozambique to facilitate the cross-border movement. They concessioned the infrastructure to the private sector in order to rehabilitate and upgrade the road, the rail link, and the Port of Maputo, and to operate them efficiently. Since then traffic has grown rapidly.

136. Another approach was used for the Trans-Kalahari Corridor, since the road and port infrastructure were already in a good shape and there was an existing customs union (Southern African Customs Union, SACU). Also traffic was growing rapidly, having tripled between 1998 and 2003. The principal objective was to promote the use of Walvis Bay Port as an international gateway. For this purpose, the Walvis Bay Corridor Group, a public-private partnership, was created. The group, in which the private sector was highly involved, facilitated the agreement between Namibia, South Africa, and Botswana to introduce a Single Administration Document and to simplify border-crossing procedures. The agreement was formalized at the end of 2003.

137. The most successful multilateral corridor development programs have taken place within customs unions since these simplify the border-crossing procedures. In the case of the TEN-T network in the EU, the formalities for border-crossing were addressed as part of the technical annexes to the treaty. These were prepared by the Director General for Transport. For Walvis Bay, the customs union between South Africa and Namibia had already simplified the movement of trucks across the border. In the case of the Can-Mex corridor, the procedures for trucks crossing between Canada and the US were well established prior to the NAFTA agreement. In contrast, the procedures for trucks crossing of the Mexican-US border were never fully addressed due to resistance from the US trucking industry and the Mexican customs brokers.

Alternatives for Corridor Management

138. There are several alternatives for the management of the Mashreq corridors. First would be the creation of a sub-regional trade development agency, similar to CAREC in Central Asia or ASEAN in South East Asia. The Mashreq region is among the few in the world that does not already have such an agency. However, by their nature such agencies are more bureaucratic than corridor management agencies, and can need many years to deal with corridor specific issues. Neither CAREC nor ASEAN has so far succeeded in creating efficient trade corridors in their regions, despite many years of effort and significant support from international agencies. It doesn't mean that such regional trade agencies do not fulfill a vital function in trade development; it just means that they do not have the most appropriate

[32] These efforts have been supported by the USAID and the UN Economic Commission for Africa.

institutional arrangements for dealing with the very practical issues of trade facilitation within specific corridors.

139. The second alternative would be to develop the Trade and Transport Facilitation Committees that have already been established in the Mashreq and many other countries, with the support of the regional UN agencies (UNESCWA for the Mashreq countries). These committees can bring together private operators and public sector agencies interested in trade facilitation. Until now, they have not had their hoped for success, perhaps because they are generally large (upwards of 50 members), have a broad scope of interests, but no specific responsibilities. The corridor management system is designed to overcome these problems: it would have a much smaller membership, a much more focused remit, and specific operational responsibilities.

140. If this system were to evolve, as recommended in a recent consultants report for the EU[33] (but dealing only with Syria, Lebanon and Jordan and including Israel and Egypt), there would be a Mashreq Trade and Transport Facilitation Committee. Unlike the national committees it would have a permanent secretariat including professional staff and would also contract for consultant studies on specific issues. It is not clear from the proposal whether it would have any executive responsibilities, but following on the precedents from TRACECA and TEN, this would be essential if it were to be more than a deliberative Committee.

Next Step in Corridor Management

141. Establishing a corridor management system, while having many obvious advantages, is never easy and depends on the positive participation of all the countries involved in the corridor. While there are some instances of countries coming together of their own willingness to create such a system, more often a regional trade organization provides the necessary stimulus. As of now there is no such arrangement specific to the Mashreq countries; the only potential bodies in this role have much broader mandates covering many, if not all, Arab countries.

142. In the absence of such a regional trade organization to stimulate the setting up of a Mashreq trade corridor management arrangement, it might be advisable for a special regional conference of interested countries to agree on its creation and to establish the needed institutional framework. Organizing such a conference would take considerable time and effort, but this could be achieved thanks to the coordination of international organizations interested in regional trade, such as the Arab League, UNESCWA, and the World Bank.

Modernization of Customs and related services

143. *Updating of customs data system to Asycuda World* - Jordan, Lebanon, the West Bank and Gaza and Syria have almost completed this process. All countries have benefited from advice from UNCTAD,

[33] Draft Final Report on Road and Rail Facilitation and Cross Border Pilot Projects, EuropeAid Co-operation Office, European Commission, A3 - Centralised operations for Europe, the Mediterranean and Middle-East, November 2010

which proposes to establish a regional training and coordination center for Asycuda World, currently planned in Damascus. While UNCTAD is training the customs staff, there is a further need for training in Asycuda World of customs brokers, freight forwarders, and traders. Experience in other countries indicates a particular need for training in how to enter the values of traded goods into the system. The regional center could also serve as a forum for data interchange between the customs agencies of the Mashreq countries, so that data entered for export goods from one country is automatically entered as import data for the other country.

144. *Common standards for favored trader status* - *Ma*ny developed countries (including the EU and the US) have established favored trader regimes, according to which goods of selected traders are not subject to the same level of inspections as those of other traders. Following general support from UNCTAD, Jordan with many other countries launched its own system of favored traders, called the Golden List. Although the conditions for being accepted are very strict, the number of traders on the Golden List rapidly expanded in 2009, which indicates that the system could be replicated in other Mashreq countries. In the last twelve months both Lebanon and Syria have progressed towards upgrading their own Golden List systems, to make then compatible and complementary to that of Jordan.

145. *Time release studies* - Some time release studies, which show how long various border activities contribute to the time it takes border agencies to release goods to their owners, have been completed for individual Mashreq countries, but none specifically for intra-Mashreq trade. Evidence from the national time release studies, as well as from the Trade and Transport Facilitation Audits, have revealed that most border delays are caused by border agencies other than customs, particularly the health and industrial inspection agencies. There is scope in the short term for updating and expanding the time release studies. Based on their results, one will seek greater coordination between the border agencies to reduce the overall release time, by making the agencies work more in parallel than in sequence and by reducing the time taken by some of them.

Regulation and competitiveness of logistics and transport services

146. *Common standards for service providers* - Transit traffic movement between the Mashreq countries, and between them and the EU and the GCC countries, require traders to rely on standard quality of service from freight forwarders, customs brokers, logistics providers, and trucking companies. The Mashreq countries could facilitate the creation of common standards by coordinating the licensing of their service providers. Although the Arab League and UNESCWA have fomented harmonization of road vehicle standards and visa requirements for truck drivers, harmonization of standards for trucking companies or other service providers has not progressed much so far.

147. There is also much to be gained from better implementation of harmonized truck standards, particularly axle load and gross vehicle weight limits. Even though all the Mashreq countries formally comply with the Arab League truck standards, these are very differently enforced in each country.

148. Harmonization of standards for import goods is also very different between the Mashreq countries, with widely different acceptance of quality certificates issued by laboratories and agencies in other countries. Thus, goods imported from outside the Arab free trade area face delays varying significantly in each country: Jordan has the widest acceptance and the shortest delays, while Lebanon has the most restricted recognition of other countries' standards and the longest delays when goods are tested (an average of seven days is observed between entry at a port or at a land border and release for use by the importer).

149. Treatment of transit road traffic also varies significantly between the countries: some require all transit trucks to use a convoy system, others rely on GPS-based systems, and yet others adhere to the TIR principles that require unrestricted passage for trucks and freight having a valid and current TIR carnet.

Transport infrastructure

150. The quantity of transport infrastructure is currently not a serious impediment to increased trade either within the region or between the region and the rest of the world. The main corridor highways have adequate capacity, or advanced plans exist to deal with specific deficiencies, as in parts of the north-south and east-west highways in Lebanon, Syria, and Jordan. Ports capacity is adequate too. Although the port of Beirut will soon reach its physical limit, plans exist for adding backup land area and for expanding the neighboring port of Tripoli in order to provide more water-side capacity. Plans also exist for expanding the ports of Latakia and Tartus, while the Aqaba Port Authority is planning to expand by relocating its cargo facilities.

151. Railway capacity is sufficient for the current low volume of freight traffic, but there are severe quality constraints. Most of the plans for railway expansion are based on the expected increase in traffic when Iraq embarks on major reconstruction and economic recovery. In the West Bank, the main transport infrastructure issues for trade do not relate to a lack of capacity, although the Allenby Bridge will cause congestion once the West Bank's economy begins to expand.

152. *Border-crossings* - The physical facilities at most border-crossings need upgrading and expansion, since most of them were not built to accommodate the current cross-border trade volumes or the long queues of vehicles that often form. Through the EuroMed project, the EU identified the border-crossings in most urgent need of upgrading. There are also proposals to develop or upgrade border-crossings between Syria and Iraq and Jordan and Iraq. The border-crossing on the main road between Jordan and Saudi Arabia will not need any upgrading or expansion in the short or medium term (although access to this border on the Jordanian side will need both).

153. *Review of completing and upgrading the north-south railway* - Although UNESCWA and other regional agencies strongly support the north-south railway, its potential to compete for the expected traffic has not been assessed so far. No financial assessment has been made of the corridor as a whole from the perspective of potential investors, although the scale of investment is beyond the resources of either Syria or Jordan and the project rates highly in both their investment priorities. Jordan is close to calling for invitations to operate its section of the line on a form of public-private partnership, and Syria has had a feasibility study completed of its section south of Damascus to Amman. Further studies need to determine whether completion of the north-south railway is economically and financially feasible. If the outcome is positive, there is a longer-term role in facilitating the funding of its construction and planning its operation.

154. *Upgrading of roads in the north-south corridor* - Each country's priority for road investments is different, but Syria and Jordan (at least) need to coordinate together in order to maximize their joint benefit from the north-south corridor. If this corridor is to attract a significant share of the Europe-to-GCC traffic, truck operators need to be assured of a minimum road quality throughout the corridor. Syria has already had feasibility studies completed of the upgrading and expansion of an important part of the corridor in its territory, from the border with Turkey to Aleppo. Damascus is an impediment to traffic on the North South corridor and on the central East West corridors leading to southern Iraq. A proposed new by-pass to Damascus, while aimed principally at alleviating congestion caused by local traffic, will also be of significant benefit to trade in the north south and east west corridors. The road section south from Damascus to Amman has sufficient capacity for the short and medium term; the Jordanian section of the

road is in good condition, but the Syrian section, will need an overlay or rehabilitation within the next five years.
The road section from Amman to the border with Saudi Arabia already has traffic of about 10,000 AADT including about 3,000 trucks, and requires upgrading of about 50 km. A pre-feasibility study and a technical design of this section are proposed.

155. *Upgrading of roads in the east-west corridor* - For the east-west corridors, the situation is rather different as Syrian and Jordan compete for the same traffic. So it is more likely that competition rather than coordination will determine investment priorities. Feasibility studies have been completed of the Syrian northern and central corridors linking to Iraq and their funding is included in the next Five Year Plan. The Jordanian Government has completed a Roads Master Plan that includes upgrading and expansion of the road from Amman to the border with Iraq. The Kuwait Development Fund is financing through a grant the technical design of the underdeveloped last 500 km of this road, and the Jordanian Government is already upgrading the remainder. In Lebanon, most of the road east from Beirut towards the border with Syria has already had its capacity increased, but there still remains the most difficult section from the port itself through the Beirut suburbs. In addition to planning for upgrading this section, the Government of Lebanon is planning to expand the link from the port north towards Tripoli and its northern border with Syria.

156. *Regional trade hubs* - All Mashreq countries are proposing large port investments. This could result in over-investment as suggested by experience. One of the East-Mediterranean ports will eventually achieve the status of regional hub port, and Aqaba is likely to fulfill this role in the Red Sea[34]. It will have sufficient traffic to gain a competitive advantage in terms of frequency of services. This will create a virtuous cycle in which new shippers will be attracted by connections that are more and to more market and greater choice of shipping lines. The increased number of shippers will attract new shipping lines and services. This will lead to the introduction of larger vessels and more direct services, both of which will reduce the costs of ocean shipping and further increase competitive advantage.[35]

157. Nevertheless, if a port's hinterland is confined to a specific country, the formation of a hub may not occur. Each port would be served by a few lines providing less frequent services and using smaller vessels. As a result, the competitiveness of the regions for trade would be reduced.

158. Lebanon, Syria, and Jordan aim to fulfill a more productive role than just acting as transit countries between Europe and Iraq and the Arabian Peninsula. Therefore, in addition to creating hub ports or transit interchanges, all three countries are considering more value added activities which could best associate with their hub port or freight interchange. This would change the concept of hub port into a regional freight distribution center, similar to that of the Jebel Ali Free Zone in the UAE[36,] This would provide warehousing for traders and manufactures interested in establishing a regional distribution center for their products. This would also allow manufacturers from Europe and Asia to reduce their delivery time to local clients. Eventually, this new distribution center would substitute for Jebel Ali within the

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[34] However, there are many other ports competing for this role

[35] This may not affect the published rates that are generally quoted for a range of ports, but it will create opportunities for increasing the discounts offered to large-scale shippers

[36] This success of Jebel Ali is often attributed to the vision of Sheik Rashid bin Saeed. However, it is also due to the management of the zone. The management developed a marketing strategy based on warehousing, and seamless transfer of goods between the port and the zone. They introduced a package of incentives including one-stop shop for completing regulatory procedures and commercial pricing of land and facilities, in order to attract not only traders but also major foreign manufacturers. Furthermore they took advantage of whatever opportunities presented themselves ranging from regional conflicts to rapid economic expansion in order to market the Zone.

northern Mashreq region. It might also serve as a consolidation center for exports where buyers could assemble orders from different manufacturers for export to specific retail outlets. This distribution center would serve Syria, Lebanon, and Jordan.

159. According to preliminary assessments, there might be potential for one such center in the south of the Mashreq region and one (but no more than one) in the north, either of which could serve the northern and western parts of Iraq. The rest of Iraq would continue to be served by Jebel Ali unless Um Qasr can also achieve hub status.

160. For the south of the region, a location close to Amman is preferable, associated with links to Aqaba. Investment in the center would secure a share of the Asian trade but without capturing much of the trade for Lebanon or Syria. For the north of the region, Tripoli or Latakia are the preferred locations. The center in Tripoli would be created on reclaimed land next to an expanded port; the center close to Latakia might be located in Aleppo.

161. While the regional freight distribution centers will be ultimately selected by the shipping lines and traders, the World Bank could assess the potential for each of the regional ports to fulfill this role. And if one of them should display a clear advantage, the Bank could help prepare a development plan for that (or those) center(s), and in the longer term help bring about its financing.

Medium-Term Recommendations

162. The measures that can be taken in the medium term include the more difficult policy measures and some of the more straightforward infrastructure investments.

Modernization of Customs and related services

163. *Greater coordination between border customs agencies* - Until Asycuda World is more fully implemented, there are limited opportunities for data exchange between customs agencies of neighboring countries. Even data sharing between customs at the border and the central agency within a country is currently limited. For data sharing to take advantage of Asycuda World, the countries involved need to be convinced that such sharing would not involve security risks or compromise their trade competitiveness. On the contrary, increased data sharing would enhance these aspects and the option is being contemplated with the assistance from UNCTAD which is planning a regional coordination center for the application of Asycuda World in Damascus.

164. *Greater integration of land border-crossing procedures* - While each country has much to gain by improving its land border-crossing procedures for imports, the countries have less to gain by facilitating exports and transit traffic. However, they have much to gain if they all improve their land border-crossing procedures for exports and transit as one country's exports are another's imports.

165. *Expansion of the TIR scheme* - The TIR (Transit International Routier) is a system of bonds, operated by the UNECE in nearly 70 countries that guarantees that any customs and other duties will be paid on goods transported in transit trucks if these goods stay in the country. Although Syria, Lebanon, and Jordan are all members of TIR, their truckers don't use it much for various reasons. In particular, TIR cannot be used for road trade with Egypt, Saudi Arabia, and the Gulf States because these countries are not members. Egypt and Saudi Arabia are considering accession to membership.

166. *Deregulation of trucking industries* - Inefficiencies of trucking industries in all the Mashreq countries contribute more than they should to the costs of trading between the countries. In Syria, the

industry is still subject to a queuing system that requires a client to accept the next truck in a queue rather than to contract the trucking company that offers the best combination of price and quality of service. At Aqaba port elimination of a similar system has led to significant efficiency gains within the industry and for its clients. Jordan is also restructuring the industry, with a view to having fewer small operators and an increased number of medium-size companies. Syria and Lebanon could take similar measures.

167. *Financial incentives for the replacement of trucks* and management training if trucking companies have similar incentives to invest and innovate in each country; the opportunities are reduced for alleging discrimination or favorable treatment of the trucking industry of one country compared to another. Benchmarking performance of one country's trucking industry with those of its neighbors would be more balanced and based on operational efficiency rather than efficiency in making use of national promotion schemes.

168. *Commonality of trucking regulation*s - In recent years, UNESCWA and the Arab League supported several initiatives to harmonize truck design and operating standards, including axle load limits, inspections for road worthiness, and limitations on vehicle age. Harmonization could extend to the licensing of trucks engaged in international trade and the issue of temporary visas for drivers. However, implementing these schemes has often failed because of lack of international support.

Infrastructure investment

169. *Completing and upgrading the north-south railway* - If the business and financial assessment to be undertaken in the short term is positive, the further necessary studies of how the international railway might be operated would be undertaken.

170. *Upgrading of roads in the north-south and east-west corridors* – upgrading would be implemented of the roads for which feasibility and other studies and final design were included among the in the short term studies.

171. *Coordination of port investments* - If the short-term studies of the commercial viability of port investments prove positive, coordination of investments by Syria, Lebanon and Iraq could reduce the risk of premature and excessive investments that could result in financial losses and unsustainable operations.

Long-Term Recommendations

172. Many of the actions recommended in the short and medium term will extend into the long term to be completed. The only action that cannot reasonably start in the short or medium term is developing the north-south railway, if this proves to be economically, financially, and operationally feasible. The feasibility studies of this project will take a long time, and the political agreements will take even longer.

Action Plan

173. The Action Plan summarizes the above measures needed to improve substantially trade facilitation, without specifying how they should be funded or which country or agency should lead their implementation. One could allocate responsibilities once the Action Plan has been agreed upon, while taking account of the many actions already under implementation.

	Short Term	**Medium Term**	**Long Term**

Institutional	Agreement on method of managing the Trade Corridors	Implementation of the Corridor Management Agreement	
Customs	Integration of Asycuda World	Integration between agencies	
	Compatibility of favored trader schemes	Integration of border procedures	
	Time release studies		
Logistics and Transport Services	Service standards and training programs for brokers and forwarders	Expansion of the TIR system	
		Deregulation of trucking industries	
		Refinancing of trucking industries	
Infrastructure	Border crossings	N/S highways	N/S railway implementation
	Studies of N/S and E/W highways	E/W highways	
	N/S railway economic and financial feasibility studies	Ports	
	Compatibility of port investments	N/S railway operational feasibility study	
	Hub port assessment		

Role of the World Bank

174. Implementation of the proposed recommendations could draw from the World Bank's experience in identifying new opportunities and their economic benefits for increased regional trade. This is important in the preparation of a regional project since it is necessary to demonstrate to each government that the proposed program will bring them economic growth. This would be in the form of reduced costs trade facilitation and transport costs and times for current trade flows, and the opportunities these reductions would bring in the form of additional trade growth.

175. The World Bank has adopted a broad view of trade facilitation. This combines its extensive project experience in transport infrastructure and operations, its advisory role on the development of Free Trade Zones and its research on trade and economic development. Recently, efforts have included the development of capabilities in the area of logistics; these include customs reform, research in the areas of benchmarks (such as the Logistics Performance Index) and analytical tools (such as the recently revised Trade and Transport Facilitation Audit and Doing Business indictors). These tools give the Bank the capability to measure reductions in transaction costs and increases in trade volume resulting from improved trade facilitation and infrastructure. The World Bank has also extensive knowledge of the topic of trade corridor management, and this experience would be available to the countries of the region should they accept the recommendation of this report.

176. The challenge, facing the Bank and the other development partners, is to craft programs that are regional in nature but rely on implementation at the country level. These programs depend for their success on complementary efforts in neighboring countries to achieve synergy. The Bank can provide

leadership for these programs though project financing linked to regional objectives. The programs and projects can integrate with the activities of UNESCWA and other development organizations working in the area of trade facilitation.

ANNEX 1 - COUNTRY AUDITS

1. IRAQ

Context

Once regarded as having one of the Middle East's most comprehensive transportation systems, Iraq's transport infrastructure has suffered from more than two decades of neglect and underinvestment.

Main trade routes

Other than supplies for US armed forces and efforts to clear its own ports of obstructions, much of Iraq's international trade other than imports from Asia, still comes through Aqaba in Jordan and Latakia and Tartus in Syria, with some by road through Turkey from the EU and Russia and Central Asia. Most Asian imports are transshipped in Gulf ports in other countries. Iraqi ports handle only about 25% of total imports. However, plans to develop Um Qasr or a new port at Fos have progressed in the last twelve months

Rail routes exist via Turkey to Europe, while the rail freight service to Europe via Syrian ports has recently been reinstated. Jordan has advanced plans for connection of its railway network to that of Iraq, and the GCC states are considering an extension of their new railway via Kuwait to Iraq with an inward connection to Europe via Turkey. Iraq also participates constructively in the plans to create a branch of the planned Eurasian rail route via Baghdad and Teheran to Turkey and on to Europe.

Main issues

Given the long period of neglect, rehabilitation of transport infrastructure is a major national and not only an international trade issue. If Iraq is to have the capacity to transport the projected high volumes of international freight projected for its period of reconstruction and for its consequent need to diversify from an oil based economy, most of its existing transport infrastructure will need to be reconstructed or replaced.

Although the LPI has not been applied yet to Iraq, on the Doing Business indicators, it is shown to be among those countries most in need of improvement in respect of trade facilitation. It performs amongst the three lowest global performers in relation to the cost of moving containers for import or export, although given its location it should rank above the global average. For trading procedures, such as the numbers of documents needed or time taken, it ranks last or close to last on every measure.

Road network. A large portion of Iraq's 42,000 kilometer road network is in immediate need of rehabilitation. Most of the road network was developed in the 1970s and 1980s, and little, if any, new construction has taken place since.

The extensive railway network is in poor condition of tracks and equipment. Derailments on the network, operated by the Iraqi Railways Corporation (IRC), are frequent, despite speed restrictions. Telecommunications and signaling systems are not functional. Proposals for rehabilitation of the railway network, especially the international links to Turkey and Syria, are now well advanced.

Ports are in need of upgrading and expansion. Maintenance has not been undertaken for many years. All Iraqi ports are situated along or inland from the short stretch of coastline between the borders of Iran and Kuwait and liable to severe siltation from the two major rivers. The ports of Um Qasr and Khor Al-Zubair have the potential of becoming major cargo and container handling facilities. The ports' superstructure and equipment are in poor condition and chronic siltation and wrecked vessels in approach channels pose additional challenges. Basra was Iraq's main port but is unusable because of the many sunken vessels blocking the Shatt el-Arab waterway. Controversy over the best way to provide new port infrastructure now seems to be resolved, with plans under preparation for the development of Um Qasr as well as a new port at Al Faw.

Dependence on petroleum exports. Iraq has yet to re-establish its trade patterns or to create new ones. Its economy is still dependent on petroleum exports and imports for subsistence and for the beginnings of reconstruction.

Recommendations

Customs and other trade facilitation services.

Iraq is far behind its Mashreq neighbors in updating its customs service. There have been many initiatives to bring Iraq's customs services in line with those of its neighbors and action needs to be taken on these as soon as is feasible, it Iraq is to expand its non-petroleum exports and to reduce the costs of its imports. Given that its neighbors are in an advanced stage in implementing Asycuda World, it would be advantageous for Iraq to catch up in this respect as soon as possible.

In parallel, efforts should be made to update other trade inspection services, particularly those related to phytosanitary and industrial inspections of imports. Iraq is in a special condition in respect of security inspections of its imports and exports, but the arrangements for security inspections would need to be made compatible with those of competing countries, especially in respect to risk management, as soon as is feasible.

Trade facilitation services

Restructuring of the national trucking industry to better meet the needs of cross border trading companies, is another priority action. Once this is done, Iraq would be in a position to become a member of the TIR, an international system that greatly facilitates cross border trade by trucks by providing a guarantee that any customs and other duties will be paid. This avoids the need for duties to be paid at the border itself. Jordan, Syria and Lebanon are already members of the TIR system, so road based trade with these countries would be made much easier.

Transport infrastructure

Most of the urgent actions for improving transport infrastructure to facilitate trade are already being taken. The problem is prioritization among so many necessary actions. It is recommended to continue the focus on road infrastructure as most international trade uses road transport to reach or return from its port, or to access directly a market in a neighboring country or to access a third country. Upgrading the road network will also make the greatest contribution to domestic trade.

While the desire to provide ports within Iraq that are comparable with the best in the region is understandable, the location of ports at the mouths of the river system makes them highly susceptible to

siltation and to need constant dredging. As there are many alternatives available in the region and do not necessarily incur higher costs to use them, increasing port capacity would not appear to be a high priority.

Similarly, there are strong political pressures to upgrade the rail network so as to provide better connecting services to neighboring countries. While this is probably a high priority in the medium term, investment in railway infrastructure would take much longer to impact international trade and therefore would appear not to be a short term priority.

Upgrading all aspects of Iraq's transport infrastructure will have a substantial positive impact on long term trade prospects. But the many options available, particularly for ports and railways suggests that in the short term efforts should focus on determining which would be the most advantageous transport infrastructure to upgrade in the longer term.

2. LEBANON

Context

Lebanon lacks mineral resources and has only limited agricultural and manufacturing sectors. It has therefore traditionally relied on imported goods and transshipment trade as the basis for economic activity. Trade based export earnings remain modest at about 21% of GDP. They are principally agricultural produce and processed foods. There is also a substantial re-export sector, Lebanon being a key transshipment point for European goods (especially machinery). Lebanon has always run substantial trade deficits. The deficit was widening until the political crisis slowed import growth, but it has started to widen again.

The increase in foreign trade in the past few years is largely attributable to the benefits from trade agreements, the Greater Arab Free Trade Agreement (GAFTA) of January 1998 and the Free Trade Agreements with the EU of 2003; and with European Free Trade Association (EFTA) of January 2007. Lebanon is currently negotiating to join the World Trade Organization (WTO) and might join soon.

Main Trade Routes

More than 70% of Lebanon's international trade by value passes through the port of Beirut. The two main corridors are linking the ports of Beirut and Tripoli and are East-West to Syria and North-South along the Mediterranean coast also via Syria. All land transport crossings are with Syria, since the border with Israel is permanently closed. Three border crossings are of commercial significance: (i) Masnaa at the end of the eastern BekaaValley, (ii) Qaa-Jousseh on the north eastern border, and (iii) Aboudiye-Abbousieh on the northern border of Lebanon near Tripoli.

Promotion of the Motorways of the Sea and other Mediterranean initiatives may eventually offer opportunities to connect Beirut directly to Europe, Turkey, Cyprus and Egypt by RoRo services.

Many traders and politicians expect the routes from both Beirut and Tripoli to Iraq to become major transit corridors from the EU and even US. Iraq is by far the largest potential market in the Mashreq region and used to be a major trade destination for Lebanese mid-quality bulk exports.

Main issues

Lebanon is de facto a port-locked country, as Syria exercises its discretion about which land border crossings will be open, when they will be open, and under what conditions they will be open. Borders with Israel are permanently closed.

Excess costs in border crossing therefore reduce Lebanon's trade competitiveness. These costs stem mainly from additional fees and long waiting times. Traders estimate that these impediments impose a 20-30% over cost for Lebanese trucks compared with Syrian trucks loaded with the same goods.

Goods that originate outside Lebanon are banned from being re-exported to Syria. Syria requires that all inbound sea freight imports use Syrian ports, even though for many of them the distances are much longer than via Beirut. Similarly, Jordan requires that Aqaba handle all containers destined to Jordan.

Port clearance procedures are non-competitive with the average cost to bring an export container from a factory in Beirut to vessel is US$500-U$600. According to traders, corruption explains most of this cost.

To address part of these issues Asycuda World (AW) has been introduced with technical support from the UNDP. AW is a web-based system for submitting and assessing customs declarations. The introduction of this system promises to reduce the time taken for clearance of documents by making it more difficult for customs brokers to submit declarations that undervalue the imported goods and are otherwise erroneous. Resolving the issues involved in these declarations is expensive and time consuming, providing opportunities for collusion between brokers and customs agents. In the last twelve months Lebanon has reactivated its plans to modernize its customs and other border facilities and is receiving technical assistance from the EU to facilitate this process.

While Lebanese Customs have moved rapidly into e-documentation at the airport and seaports, customs procedures still involve the use of paper at the land borders. Combined with an apparent understaffing of personnel, this contributes to long delays being incurred by trucks at the border crossings.

While delays of up to a full day are usual in the export direction, for trucks bringing imports the average delay is in excess of one week because of the excessive examination procedures, for example, industrial and agricultural goods are subject to high percentages of testing before they are allowed to be used by the importer. In addition, shippers or brokers are often not willing to make the appropriate payments to Customs or will only arrange payment once testing approval is received.

The testing of goods is one of the most contentious issues for importers. The National Committee for Trade Facilitation found that 70% of the delay in the inbound direction was due to this testing and only 30% was due to customs procedures and inspections. In particular, the testing by the IRI is questioned since much of it involves testing of goods which have already been certified in the originating country. To avoid some of the testing delays, the Chamber of Commerce of Tripoli and North Lebanon has developed its own laboratory for inspection of food products.

Lebanon's principal area of economic activity has traditionally been services (such as banking and tourism), which in 2007 accounted for an estimated three quarters of nominal GDP, so there has been little official interest in facilitating export trade in goods and reliance has been on imports for the overwhelming majority of industrial and consumer goods.

Many international manufacturing firms that might have considered Lebanon as a base in the region have been discouraged by the restrictive licensing system, infrastructure shortcomings and the relatively high cost of skilled labor and energy, certainly in comparison with competitor bases such as UAE. Political risk also acts as a deterrent.

Trade facilitation services

Lebanon has about one thousand customs brokers, of which only about 600 are active. Three brokers can form a company and act in the name of one. Trade companies are legally obliged to hire individual customs brokers for clearing goods. Broker's licenses are obtained by inheritance and no examinations for new brokers have been held for more than a decade. Customs have agreed to try to reduce the number of brokers, but so far without success. An attempt to increase their financial guarantee from U$3,500 to U$25,000 was abandoned after protests from the Brokers Association.

Reducing the number of direct contacts between brokers and customs officers or traders would probably decrease the issues of non-official costs, which are high in Lebanon. These costs indeed undermine the competitiveness of Lebanese exports and increase the cost of imports.

While customs brokers do little to facilitate trade, their employers, i.e. freight forwarders, appear on the contrary to be well-organized and in possession of FIATA certificates. Lebanon has around two hundred freight forwarding companies, which are authorized by the Ministry of Transport and are mostly medium-size enterprises. Under Lebanese law, freight forwarders cannot perform customs clearance services.

Port services and charges

Tariffs at the port of Beirut have been significantly raised for exports and imports during the last months. In 2008, the port's total revenue increased by 16% year-on-year to US$133 million, and in January 2009, this revenue reached US$14 million, up by 48% compared to the same period last year.

A part of the charge for handling containers destined for Lebanon (the "gate charge") now varies according to the nature of goods in the container. This practice is very uncommon in the world today, being derived from break-bulk handling charges of 50 years ago when the unloading costs did vary by product. Thus, in Beirut, the variable handling fee for a container full of rice or sugar is nine times cheaper than the one for a container full of cigarettes or tobacco. Nevertheless, all taxes and fees are very likely to become flat when Lebanon joins the WTO.

Transport Services

The truck fleet capacity in Lebanon is small and outdated. According to the Syndicate of Lebanese Truck Owners, there are about 15,000 trucks (over 3500 kg, estimate only) and about 175,000 private fleet trucks (over 500 kg, mostly for local deliveries). In contrast, Syria has about 45,000 of the larger trucks, Saudi Arabia has 200,000, Kuwait has 40,000, and the UAE has 80,000 trucks.

The average age of the Lebanese fleet more than 25 years, and trucks that are more than 30 years old are still commonly used. The current truck fleet is in poor physical condition due to its age, and the lack of maintenance and inspection. According to industry sources, most Lebanese trucks could not carry a Transport International Routier (TIR) certificate because they would not meet the emission standards or the weight limitations. The number of TIR carnets issued in Lebanon has thus been extremely low the past few years: 16 in 2006, 56 in 2007 and 1 in 2008, mainly to Turkey and Arab countries. Nevertheless, the TIR agreement that is implemented by Lebanon, Syria and Jordan will remain of limited application until Saudi Arabia and the Gulf States become members.

The trucking industry is highly fragmented. Most trucking companies own only one truck, although there are a few small fleets of up to 100 trucks. Owner-operators represent about one-third of the total Lebanese common carrier truck fleet. This lack of consolidation in the industry also leads to inefficiencies in managing the trucking fleet and a lack of coordination to serve the shipping public.

The poor state of the Lebanese truck fleet is explained in part by a lack of competition and in part by the lack of incentives for investment by the trucking industry. Although proposals have been made to reduce import duties on new trucks and to give tax incentives for investment in trucking companies, they have not been acted upon, leaving the Lebanese international trucking industry at a competitive disadvantage. In the last few years, Syria and Jordan have indeed implemented such measures with success, even though the Lebanese General Director of Land Transport challenges this statement.

Attempts to restructure Lebanon's trucking industry have also been frustrated by protection of existing owner-drivers. This is counter to the national interest, which requires a more efficient trucking industry than at present.

However, it is possible that the long transit times to Saudi Arabia and the Gulf States would make it impossible for a trucking company to survive on international transport alone: a return trip to the Gulf States takes about 20 days and it is difficult to find backloads. Thus, the cost for a 5-axle semi-trailer carrying a load of about 32 tons from Beirut to the Gulf States is about U$2,500. For the same truck to go to Central Asia it would cost about U$6,500. No backhaul load would be expected in either case. So a domestic trucking business is needed to cover the company's fixed costs.

Finally, the trucking industry lacks a strong and unique national representative association. Today, trucks representatives are split into at least two different organizations, one for the refrigerated trucks and another for the non-refrigerated ones.

Transport Infrastructure

Ports

The port of Beirut is run as a public sector agency, with a ten year management contract for the container terminal. In 2009 the container terminal handled about 950,000 TEU, of which about 420,000 were transshipments (each container is handled and counted twice in the total, so there were about 210,000 TEU of transshipment containers) and 530,000 destined for or originating in Lebanon. In this last group, there is a large imbalance between imports and exports, with almost all import containers being full but more than 80% of export containers being empty.

Since the port is congested by a lack of space for storage of containers, the free storage time has recently been reduced from 14 days to 6 days for green channel cargo and to 9 days for other channels of cargo.

The reduction in free storage time has increased the proportion of containers leaving the port within nine days of being unloaded from about 25% to more than 65%. This is an indication that the previous longer storage time was being used as low cost storage of containers and was not needed for clearance purposes.

Construction of a 500-meter extended berth and an additional container storage area started in August 2009 with funding from the European Investment Bank (EIB). The port will need significant further investments if it is to expand.

Tripoli port, in the second largest city in Lebanon, has one 600-meter quay but no container terminal. In comparison with Beirut, it has more available land area, easier road transport to Syria and Iraq, and lower labor costs. Therefore, a potential solution to congestion at and around the port of Beirut would be to expand the port of Tripoli.

In addition to agreed expansion to include a container berth and terminal with a deep draught, further proposals envision the development of a transport and trade hub, including a new freight airport and road and rail access to Syria, and via Syria to Saudi Arabia, the Gulf States and Egypt as well as Iraq and, through its ports, to South and East Asia. A draft proposal was announced by private investors in 2006 before the current financial crisis. The main rationale for the development of a trade hub in Tripoli is its geographical proximity with Iraq, which used to account for 80-90% of the port's traffic.

Border crossing facilities

There are long queues of trucks every day at all three major land crossings with Syria, the worst queues usually being at the Masnaa crossing that handles an average of about 400 trucks per day in each direction. The other two borders are sometimes closed by Syria for security reasons, putting additional

pressure on the Masnaa crossing. There was an agreement between Syria and Lebanon in 2004 to build a joint border facility at Masnaa, but the increased political tension between the countries has prevented any progress.

Lebanon is now expanding the area for truck parking at the Masnaa border crossing to provide more than 300 places, as well as overstay parking for trucks that have been at the border more than 30 days.

The Lebanese Government is now expanding the existing border facility at Masnaa. The new facility will include parking areas for trucks, new and separate access roads for cars, buses and trucks, new buildings for security and customs agencies and restaurant and other facilities for users. The expanded facility will have in excess of 300 parking placed for import trucks, necessary because of the excessive time needed for import clearances to be completed.

New facilities are also being planned for the other two crossings. The one at Aboudiye-Abbousieh will be on a new alignment of the border roads, with the access roads on both sides of the border already under construction.

Highways

The road from Beirut to the border crossing at Masnaa (part of a PanArab Highway) is being upgraded in stages. Funding comes from USAID (reconstruction of the bridge destroyed by Israel during the 2006 conflict), Kuwait and the EIB (the section leading to Masnaa) among others, as well as will Lebanese government funding. The most difficult and expensive section to construct, the mountainous access to urban area of Beirut is the only section still to secure funding. The road linking the ports of Beirut and Tripoli is also in need of expansion, this also being expensive as it will have to pass through the built-up northern suburbs of Beirut.

Railway

Agreement has recently been made with Syria and the Kuwait Development Fund for the construction of a rail link from the port of Tripoli to connect with the Syrian railway. The EIB has also agreed to funding of the first section of railway south of Tripoli and to a feasibility study of a suburban railway through the northern suburbs of Beirut. If these proposals are implemented, there will be only a short section of railway remaining to connect the port of Beirut via Tripoli to the Syrian railway, and thence onwards to Iraq.

Recommendations

Trade Facilitation

- Strengthen the role of the National Committee for Trade and Transport Facilitation: it should become the leading authority to set national priorities, and to oversee and monitor the progress of reforms.[37] It is also essential to improve relations between the public and private members of the Committee.
- Coordinate with Syria to seek a mutual reduction of regulatory impediments for the benefit of both countries.

[37] The National Committee for Trade and Transport Facilitation has not met for more than one and a half years, since the publication of their first report that recommended the privatization of the national airline Middle East Airlines, against the advice of all of its members other than the Chairman (the then Deputy Minister of Transport).

- Complete a time release time study to resolve the controversy over the source of delays for import cargo, and address the causes once they are confirmed.
- Use the implementation of Asycuda World as an opportunity to restructure the Customs Brokerage industry.

Transport Services

- Restructure trucking industry so as to eliminate the artificial distinction between refrigerated and other trucks. Restructure licensing of trucking companies to increase professionalism and provide financing source for replacement trucks. Create a separate license for international trucking.
- Revise qualifications and financial standing of truck operators
- Study the feasibility of Ro-Ro services between Beirut and ports in Turkey, Egypt, Cyprus or Malta to avoid crossing land borders with Syria.

Transport Infrastructure

- Consider a full concession for the operation of the port of Beirut, e.g. as in Bahrain.
- Complete the feasibility study for a trade hub in Tripoli, and get the feedback of Iraqi authorities to assess the potential of the Tripoli-Iraq route.
- Support the expansion of the port of Tripoli, try to attract at least one major shipping line to use it as a transshipment hub, or look for niche markets in the Eastern Mediterranean Sea such as liquids or grain storage.
- Secure funding for a feasibility study to complete the railway from Beirut to Tripoli and to complete upgrading and expansion of the PanArab highway from Beirut to Masnaa and the road linking Beirut and Tripoli ports.

3. JORDAN

Context

Jordan's economy is more open than those of most of its neighbors, and it has embraced the principles of free trade more aggressively. Despite the recent increases in the volume and value of international trade, the economy is still heavily dependent on remittances from overseas Jordanians and on investments from Gulf States in property development. Twenty five per cent of exports are in the highly vulnerable garments sector with fertilizers and pharmaceuticals sectors, each making up a further 8% of the total by value. All types of foods make up a further 8%. Exports are more diversified by type and by destination than for other Mashreq countries.

There have been many positive developments in trade facilitation, including the concessioning of Aqaba port and the development of an associated Development Zone. Jordan now has a multitude of Free Trade Zones. The trucking industry has been revitalized by tax and tariff exemptions on new trucks that replace existing trucks, the Customs Agency has been restructured and its trade facilitation objective is rated more important than its revenue generation function. Replacement of the truck queuing system in Aqaba port has had a dramatic positive impact.

Jordan has a free trade regime with no basic restrictions on goods that can be imported or exported and no restrictions or regulations on who can undertake international trade. However, restrictions to this regime are made on an exception basis for environmental, health, security and sometimes trade protection reasons.

Main Trade Routes

Jordan has a key role in two of the main transport corridors in the Mashreq region: the North South corridor from the EU via Turkey to Saudi Arabia and the Gulf States, and part of the East West corridor from Iraq to the ports of the Mediterranean Sea. There are proposals in hand for development of the physical infrastructure on both of these corridors, but trade facilitation and transport services on the Jordanian section of both of them has received less attention. There are also proposals for the development of a specialized air freight airport in the Jordan Valley that would depend on attracting exports from the West Bank and Israel for its commercial viability.

Most of Jordan's external trade is through the port of Aqaba. This port has been transformed in the last decade into one of the region's main container ports, with its container handling efficiency comparable to the best international standards.[38] With the abolition of the truck queuing system and its replacement by a state-of-art pre-allocation system, even its land access is no longer a significant problem. However, the development of the associated free trade zone has not yet achieved its hope for success. Aqaba port has feeder services to the main Gulf ports and now has many direct calls as well. However, as it is not directly on a round the world shipping route, it is at a geographic disadvantage in this respect compared with Abu Dhabi and Port Said.

Jordan has poor access to Mediterranean ports. Some exporters use Haifa despite the logistics problems that this involves, while others tolerate the high trucking costs to Beirut or Latakia. This limited access leads many exporters to accept the slightly longer shipping times and slightly higher costs of using Aqaba, and nearly all Jordanian manufactured imports, whatever their origin, enter through Aqaba.

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[38] Aqaba was rated second best container terminal in the Middle East and South Asia (Jordan Times, February 14, 2007)

Trade services

Customs Agency

The objective of the Jordan Customs Administration is "to provide an excellent Customs service that fulfills the comprehensive growth requirements and copes with the developments at the national and international levels."

This is unusual in that it mentions growth and not revenue generation, and in contrast with some other Mashreq countries, revenues collected by the Customs Agency represent only about 30% of all central government revenue. In listing its operational goals, trade competitiveness and growth come before revenue generation.

The Customs' Administration has received substantial technical assistance from USAID, the EU and UNCTAD. Because of its trade oriented objective and the substantial technical assistance it has received, the performance of the customs agency is more efficient than that of the other Mashreq countries, as indicated in the many studies undertaken of trade facilitation in the region.

Asycuda World

Implementation of Asycuda World to replace Asycuda ++ was completed by the end of 2009.

Single Window

A Customs Single Window has been introduced at nearly all border crossings, but there has been little progress on development of a genuine single window that includes all border agencies.

Golden List

In parallel with this introduction, a system of "preferred traders" has been implemented under the title of the "Golden List" (the phrase Authorized Economic Operator, AEO, is used in Europe). The scheme is voluntary and despite the high entry requirements, more than one hundred companies have been accepted to the list with more expected by the end of 2010.

At present only about 14% of customs declarations quality for the Green Channel (which requires no inspections of goods or documents), with about 40% receiving Yellow Channel clearance (review and inspection of documents) and about 46% requiring Red Channel inspections (documents and goods inspected).

Electronic data processing and storage

Jordanian customs will soon be an almost paperless agency, with all current and recent part documentation being electronic.

Border Crossing Management

There does not appear to be any single agency responsible for the overall or even the day to day management of land border crossings. The Trade and Transport Coordinating Committee could provide a good opportunity for starting with the difficult process of integration of border agencies. Most of the border crossings have adequate infrastructure, the main exception being that with Iraq at Karameh.

Trade Associations

Jordan has two trade associations in businesses involved in trade facilitation, one for Freight Forwarders and the other for Customs Brokers. There is also an active Shipping Agents Association, but this is not directly concerned with trade facilitation issues. While the Customs Brokers Association deals exclusively with international trade, for the Freight Forwarders such trade is only part, albeit an important part, of its responsibility.

The main objective of the Customs Brokers Association is to represent the interests of its members (membership is voluntary but only open to Jordanians) and clients in front of the Customs Administration, and for this purpose it has representation at the port of Aqaba, the Queen Alia International Airport and some of the larger Free Trade Zones. It investigates complaints made against its members and supports its members if there is a compelling legal case in their favor. A major complaint of the Customs Administration and clients against the Association is that its members do not provide services for all the time that the customs posts are open, resulting in significant backlogs and waiting time for documents to be cleared, especially in the mornings.

The Jordanian Logistics Association (JLA) was established in August 2007, with the aim of representing the Freight Forwarding industry in Jordan. Being a relatively new association with a voluntary membership it is reluctant to impose strict conditions on membership, although it does have a strict code of conduct for its members and standards conditions of contract that are quite demanding on its members. To qualify for membership, companies need a minimum of paid up equity (but only JDP 50,000) and a logistics or transport license from the Ministry of Transport. Some consideration is being given to publishing a list of members with some indication of the size of their business and the services they provide. The JLA has chosen not to represent FIATA in Jordan and so cannot have access to its wide range of training and examination services. Although the JLA is represented the Trade and Transport Facilitation Committee recently established by the Ministry of Transport it has no direct contact with similar associations on other Mashreq countries.

Transport services

Most of the trucking industry has been successfully restructured, with the average age of Jordanian trucks being one of the lowest in the region. However, the continued functioning of the joint Jordanian-Syrian public trucking company, that owns almost 400 trucks and still transports most of the bilateral traded goods between the two countries, is an anachronism in the current business climate. For the domestic trucking industries of the two countries to expand in the international trucking business and compete more successfully with the Turkish trucking companies that currently dominate the trade, the companies need the security of a share of the largest international trucking market, that between the two countries. A similar joint Jordanian Iraqi government owned trucking company was recently discontinued.

Trucks and trucking companies are categorized by the products they transport and the form of the vehicle body (tanker, open, closed etc). This is unnecessary, as the performance of the trucking company does not generally depend on the products transported of the specifications of the vehicle or trailer.

The regulation of trucks by type of body and the requirement for a company to register separately each one of them is an unnecessary restriction on the operation on the industry. If any form of categorization of trucking companies is considered necessary (other than complying with minimum quality standards) it would preferably be by size of the company and the range of services it offers. One of the service standards that could be used to categorize companies is whether it offers international transport services.

TIR

Direct trucking to Europe via Syria and Turkey is possible as all three countries are members of the TIR system, but is not a practical option in terms of costs and time. So far, demand has been too low for the market to pick up. As a result, backloads are difficult to organize. Jordanian (as for Syrian) truckers cannot easily get multiple entry visas into the EU. Only about 400 TIR carnets were issued in Jordan in 2008, many for exports to Russia and Ukraine through Turkey. Most imports from the EU are carried in Turkish trucks and as these have a TIR carnet for their return issued in Turkey before their departure, most exports to the EU are also carried in Turkish trucks.

GPS control for transit trucks

Escorted convoys for transit trucks to Saudi Arabia, the Gulf States and Egypt were replaced in 2009 by a GPS based system. Once a transit truck has passed Customs documentation, GPS tags and electronic seals are attached to the truck (and trailer if there is one) and load, so that movement of the vehicle and its adherence to its approved route and timing can be monitored (any deviation, unauthorized stops or breaking of the electronic seal can be detected). A fleet of special inspection vehicles is used for instant investigation of any unscheduled activity. A variety of monitoring measures are used. The reusable GPS tags are removed when the truck exits Jordan. This system has a high security potential as well as being much more efficient in terms of transit truck times (they do not have to wait an average of more than six hours for the formation of a convoy). With the implementation of this system, there is no need for TIR or other guarantee system as the chance of a truck not conforming to its route or time of exit from Jordan and the opportunities for the transit freight being diverted to national use are minimal.

Replacement of the truck queuing system at the Aqaba Free Trade Zone has had a dramatic impact on truck productivity. Instead of trucks managing to get a load once every about once every two weeks (as was been reported for the period when the system queuing system was in operation), they now average more than one trip per week. The new truck management system, through which shippers can contract with any trucking company and the truck, is only dispatched once the container (or other load) has cleared customs in the port. Movement of port destined trucks through the urban area is also controlled, contributing even further to truck productivity as well as an improvement in the urban environment with the disappearance of the thousands of trucks queuing in the streets. The new system has been so successful that has been applied at the Jordanian-Syrian Free Trade Zone on their border.

The more efficient domestic transport industry that results from abolition of the queuing system also benefits the Jordanian international trucking industry by giving it a more secure national market to support the international operations.

Transport infrastructure

The Ministry of Public Works and Housing has developed a Roads Master Plan with funding from grants from the European Investment Bank (EIB). In terms of Jordan's international connections, this Plan includes upgrading of the roads to the frontiers with Iraq, Saudi Arabia, Syria and Egypt. Another key upgrading is for the road from Aqaba via Amman to the border with Syria. Funding for the feasibility study of the road from Amman to the Iraq border is being funded by Kuwait, and upgrading of the part of the road the serves this corridor and that from Amman to the Saudi border is being undertaken with national funds, There remains a section of road of about 50km, from this road to the Saudi border, that needs upgrading and expansion but has so far not received funding.

The Ministry of Transport has also developed a far reaching Railway Master Plan. This includes a North South corridor (the northern part of which will provide the Jordanian section of the EU-Saudi Arabia corridor), and the southern section a new connection between Aqaba and Amman, and an East West corridor from Iraq to Zarqa (near Amman) The Master Plan also includes a new standard gauge railway from Aqaba to Amman, that will link with the other standard gauge railways and connect to Syria, Iraq and Saudi Arabia. All the railways would be standard gauge in agreement with resolutions of UNESCWA, the League of Arab States and the Arab Railway Union. The estimated total cost would be about U$6 billion including the cost of land acquisition.

From a trade facilitation perspective, there could be significant advantages in the development of the Jordanian section of a new railway corridor from the Gulf States via Saudi Arabia, Jordan, Syria and Turkey to the European Union countries. Final planning for the railway linking the Gulf States has now started, as has planning within Saudi Arabia to link to this new railway with another line to close to the Jordanian border for the transport of bauxite and phosphates.

Free Trade Zones

Jordan's free zone areas were established to promote export-oriented industries and transit trade. Commodities and goods of various origins are deposited in the free zone areas for the purpose of storage and manufacturing, without having to pay the usual excise fees and other taxes, as they are treated like goods outside Jordan. There are currently two operating free zones in Jordan, at Aqaba and Zarqa, operated by the Jordanian Free Zones Corporation, an autonomous government agency.

The Aqaba Free Zone covers one million square meters, although an additional 2.5 million square meters has been allocated for the purpose of establishing industrial projects, similar to the Jabal Ali Free Zone in Dubai. The Zarqa Free Zone is 35 kilometers from Amman, along a route which connects Jordan with neighboring countries. It covers 5.5 million square meters and has about 65 licensed industrial companies and more than 175 warehouses.

Jordan's Logistics performance

Although Jordan ranks near the middle for Middle East countries on the Logistics Performance index (with a score of 2.89), it ranks significantly higher than the other Mashreq countries (Lebanon having a score of 2.37 and Syria of 2.07) and higher than the average for countries in the Middle East and North Africa Region (2.42). These rankings are also reflected in those of the components of the LPI, with Jordan ranking higher than Lebanon and Syria and the regional average on every component other than domestic logistics (for which the scores and rankings are not used as the results are generally unreliable).

Jordan is at a disadvantage in respect on connectivity and logistics costs to the EU countries as it does not have a Mediterranean port and Aqaba has a significant time and cost disadvantage compared to Beirut and Latakia (but all three ports act only as feeder ports to an intermediate hub port). However, the location of Aqaba, together with its now much improved efficiency, gives Jordan a significant advantage in terms of access from ports in South and East Asia.

Business climate

The relatively high ranking of Jordan, in terms of logistics performance together with the extensive provision of free trade zones, is reflections of the overall highly favorable business climate to international trade. This climate was created through government policies and actions to which the business community has enthusiastically responded. The concessioning of the container terminal in port of Aqaba was an initial response to a crisis in efficiency that led several shipping lines to cut the port from its schedules and for others to impose cost penalties on its use.

The private sector has responded with the creation of a thriving export oriented economy, with the freight forwarding and logistics sectors providing the necessary services to support it. There is a newly created (2007) Jordan Logistics Association as well as a Freight Forwarders Association, however the latter is still closely associated with the profession of customs brokerage and has not until now responded as positively as the other trade services sectors to the new trade environment. In response to suggestions from UNESCWA and with initial financial support from the EU, a Trade and Transport Facilitation Committee has been created under the leadership of the Ministry of Transport.

EU support for a National Transport Strategy[39]

The EU is providing three year technical assistance for the preparation of a Jordan National Transport Strategy, one part of which will be a Strategy for Trade Facilitation. So far the main challenges in producing the Trade Facilitation Strategy are seen as:

- Improvement to land border crossings
- Enhancement of regional harmonization and integration
- Development of multimodal and integrated transport

One of the main objectives of EU assistance is to "raise transit traffic's contribution to the national economy". Although the National Executive Programme for 2007-2009was to raise the contribution from 2.5% to 4.5% of GDP, the EU technical advisors suggest a more modest target of 4% within two to three years. Another stated objective is to "establish an inland port and multimodal freight terminals" to serve international traffic. Taking into account the three challenges and the two objectives, the Trade Facilitation Strategy on the basis of three themes is proposed:

<u>Increasing domestic capacity for trade facilitation</u>: This theme includes strengthening the initiatives of the National Committee on Trade Facilitation and developing the capacity of freight forwarders and trucking companies to become more competitive in the regional transport market.

<u>Foreign relations and international cooperation</u>: A small sub-committee has been formed to update the Transit Agreement between the Arab States. There is also an intention to harmonize infrastructure and regulations (axle loads and vehicle dimensions and international loading limits i.e. containers and vehicle

[39] This section is based on a draft of the Proposed National Transport Strategy, 2009-2011, Framework Contract Europeaid/119860/C/SV/multi prepared for the Ministry of Transport in January, 2009

swap bodies) related to international road transport. A third component under this theme was the creation of Single Customs Windows at all international borders, fully implemented by the end of 2010). This component also includes the improvement of physical facilities (including advanced laboratories) and services at border stations.

Promoting multimodal transport: This theme relates to optimizing the use of road and rail transport and extension of the national railway network to connect with Saudi Arabia and Iraq and renewal of the connection with Syria. It also provides for the study of the role of and potential need of inland ports and private sector's contribution to establish connections and interchange points between road and rail networks.

Recommendations

Ministry of Transport

- To provide a more secure basis for an international trucking industry, the current joint public companies with Syria and Iraq should be restructured as fully private operations, preferably by direct sale. This action would be consistent with the transport policies of all three countries and would have beneficial impacts on the competitiveness of their private international trucking companies;
- Simplify the method of categorizing trucking companies to give them greater flexibility in their operations (Action: Ministry of Transport);
- Strengthen the implementation of axle load and gross vehicle weight inspections at land border crossings (Action: Ministry of Transport);
- Strengthen the coordination between Jordanian public agencies at land border crossings, and in particular introduce a genuine Single Window (Action: Ministry of Transport through the National Committee for Trade and Transport Facilitation);
- After one complete year of operation, review and revise as necessary the functioning of the National Committee for Trade and Transport Facilitation (Action: Ministry of Transport);
- Start on the planning for the priority Jordanian sections of the Gulf to Europe railway (Action: Ministries of Planning and Transport).

Ministry of Public Works and Housing

- Start on the planning of the new road link to Iraq and upgrading the road link from Amman to the Syrian border.

Customs and Border Agencies

- Review the requirements for entering the Customs Golden List (that is, becoming an Authorized Economic Operator). If the current requirements are confirmed, provide more technical assistance for companies to satisfy them;
- Strengthen the coordination with Syria at the land border crossings (Action: Customs and other Border Crossing agencies).

Ministry of Planning and International Cooperation

- Better coordinate the planning processes of the Ministries of Transport and Public Works in their proposals for trade corridors (Action: Ministry of Planning and International Cooperation);

- Start on the planning of the new road link to Iraq and upgrading the road link from Amman to the Syrian border(Action: Ministries of Planning and Public Works and Housing);
- Start on the planning for the priority Jordanian sections of the Gulf to Europe railway (Action: Ministries of Planning and Transport).

4. SYRIA

Context

Syria is a country undergoing many changes and opening its economy. Most stakeholders and observes are positive about those trends. However, under the current framework it is still facing serious facilitation bottlenecks, which hinder its competitiveness, many of them inherited from the state-led economic organization. This period has deeply influenced business practices and the delivery of logistics related services. Lack of facilitation is also compounded by weak international connectivity and geography.

To benefit from opportunities created by the association with the EU and the expansion of regional trade (GAFTA), there is a need to upgrade its trade services. Enhanced regional cooperation would improve the performance of existing corridors (transit regime, and border management) for which transport operators in other Mashreq countries find Syrian authorities to be less than helpful in trade facilitation.

Trade patterns

The main exports for Syria are oil products to Europe. Europe accounts for about 25% of total exports, with oil accounting for the major share. These are supplemented by agriculture and a few manufactured products (e.g. garments), mostly to other Mashreq countries which account for about 14% of total exports. Imports come mostly from Europe and Asia. The main regions for Syrian imports are the EU and GCC with about 20% each and other Mashreq countries which provide about 18%.

Syria has not yet developed a sustainable export-oriented industry relying on contract manufacturing between local industries and European buyers, even though it is endowed with relatively low cost and skilled labor. Garment exports with a major interested European retail chains have not until now proven sustainable. This lack of sustainability has less to do with the longer distance (compared with Turkey) as with supply side constraints.

Syria is also a natural transit route between Turkey/Europe and the Gulf and stands to benefit significantly if this trade increases. There are at least two bases for optimism:

- The proposed EU association Agreement is expected to boost investment in European export oriented manufacturing, especially from Turkish manufacturers looking for lower cost skilled labor.[40]
- A strong GAFTA dynamic is creating increased opportunities for the poorer countries in the region exporting to the richer ones, although they are face competition from Asian exporters. The Syrian manufacturers tend to take pride in the perceived quality of their exports in comparison with that of other Arab countries such as Egypt.

Main trade routes

The ports of Tartus and Latakia account for most of Syria's international trade. In addition, transit through Latakia and to a lesser extent Tartus could be a favorable connection between the EU and Iraq, whose economy is expected to enter soon a demanding period of recovery and expansion.

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[40] Turkey being in a customs union with Europe needs to replicate the same Trade agreement which will facilitate the CM to Europe of Turkish garment manufacturer based in Syria and using Turkish fabric as inputs.

The North –South road and rail corridor from the EU via Turkey to Jordan and onwards to the Gulf (at least for road transport) has a high potential that is not currently fulfilled. There are only about 300 trucks per day crossing the major road borders into Turkey. About the same number cross into Lebanon, but these are mostly for bilateral trade with little transit trade.

Main issues

Syria's trade facilitation and logistics services are in a process of transformation, but are behind those of Jordan in this respect.

Logistics performance

Logistics benchmarks, such as the LPI and Doing Business, put Syria among the least efficient Middle East and North Africa region countries. It also scores lowest of the Mashreq countries on the overall LPI and even lowest overall on each of the separate components of the index. On the Doing Business ranking, it performs much better, for example ranking best in the region in terms of number of days needed to import and to export.

International connectivity was impeded by Latakia acting only as a feeder port but like Aqaba, it has now attracts direct services.

Trucking through Turkey to Europe is possible under TIR but is not a practical option in terms of costs and time, for example some €2,500 and six days for a truckload to Germany. So far, demand has been too low for the market to build up. As a result, backloads are difficult to organize. Syrian truckers cannot easily get multiple entry visas into the EU. Only about 3,000 TIR carnets are distributed each year, and mostly are for travel to Russia and Ukraine through Turkey.

Business environment

While the logistics/facilitation performance of Syria is still low by international standards, the consensus of observations made during the recent TTFA in Syria was that the business environment in general, has improved dramatically over the last three years. Private activities have been booming, boosted by the liberalization of the banking sector. There have been genuine efforts to improve the management of trade related infrastructure. Even the heavily criticized customs is undertaking a major modernization.

However, business practices and trade operations are still very much influenced by the traditional way of doing business in the regional trading network. Many business practices that were previously needed to circumvent the constraints of a state-controlled economy are still in place. Whereas they facilitated business in a state controlled system, they are a severe impediment to business in a more open and market oriented economy.

These practices include reliance on cash transactions, or through complex arrangements with Lebanese financial agents, despite the presence of an efficient banking system. They also include a low attention to quality and timely delivery of intermediate products, despite these being prime requisites in a market economy and essential for successful exporting.

Governance and integrity are other concerns in this transition period. The level of fraud (for instance under-invoicing of transaction) is very high even by low regional standards. The problem is so entrenched that business people are very open about the level of corruption. The combination of real or

imagined corruption, together with entrenched and no longer appropriate business practices are probably greater constraints on the growth of trade than inefficient trade facilitation.

Foreign Direct Investment has received as stimulus from recent changes in investment laws and changes that are more positive are being planned. However, the impacts of increased FDI have not yet built up enough to spill over into business practices.

Trade facilitation services

Customs Agency

There has been the beginning of reform of customs, IT, and border management. Clearance, transparency, and integrity are still jeopardized by formidable problems with valuation of traded goods and risk management. Asycuda World has been introduced and an agreement made with Turkey for the private operation of trade services at their joint borders.

Large trading companies consider that the time to clear goods through customs is quite reasonable. Although there are no detailed time release statistics to confirm this, the Doing Business results indicate averages of 15 days for exports and 21 days for imports, both better than the Mashreq averages. However, short times do not mean the process is friendly or transparent, and the evidence from the TTFA was that the short times are achieved at a high price.

Syria is very advanced in terms of border management and interagency coordination is a lesser problem than in other Mashreq countries. It has a single window at many borders, there are inspection laboratories at the ports, and customs allows conditional release of goods. A recent innovation has been the position of Border Post Manager, with responsibilities for day to day coordination between the many border agencies. This appears to be very effective and worthy of being a precedent for other Mashreq countries. Syria has recently entered into an agreement with Turkey for the joint management of their border crossings by a private company.

Among many positive signs, there is evidence that customs and other border agencies are giving trade facilitation as much importance as revenue generation and border integrity. Trade facilitation would be enhanced by broader payment options for import and other duties, longer opening hours than the current 8am to 3pm on weekdays only. It would also benefit from greater incentives for acceptable valuations of imports rather than the current regime that seems to encourage initial under-valuation with a subsequent informal payment to avoid delays while the valuation is questioned.

Temporary admission of inputs for manufacturing is unavailable, which prevents participation in international production cycles, bonded factories and warehouses are a rare possibility open to few manufacturers, and until now there has been no implementation of the concept of authorized operators.

At least three multi-lateral agencies and one national agency have or are providing technical and financial assistance in customs modernization:

- The EU provided assistance to redefining the organization as well as providing recommendations on risk management. There is also substantive support for the implementation of the value added tax, which while no directly related to international trade, is still a responsibility of the customs agency.
- UNCTAD is making a major contribution with the deployment of Asycuda World, in connection with parallel with Jordan and Lebanon. The AW system is already in place at major gateways

and border posts. The French Government is providing technical assistance on valuation and risk management.

- The EIB may provide financial assistance for the construction of new border posts.

Customs Brokers

Customs brokers are individually licensed by customs. They have to pass an exam and should have a degree in law or economics. There are about 1,600 brokers, many of whom are retired customs officers (a possibility after 10 years of service without the need to take the examination).

There is no formal status for freight forwarding companies, in either the customs or transport regulations. Freight forwarders or express carriers are Syrian companies with a general commerce license. Many of them have an agency contract with international logistics companies. Freight forwarders have not so far been able to operate logistics facilities such as their own bonded warehouses.

Under this system, licensed brokers can command very high fees. The usual practice is for freight forwarder companies to prepare customs and other international trade documents, and then to use the services of a registered broker to stamp the documents and to transfer and them to and negotiate the passage of goods with Customs. With the proposed implementation of Asycuda World, the broker would become unnecessary as traders and freight forwarders can submit the forms electronically themselves without the participation of a broker. This is expected to reduce significantly the cost of processing trade documents and to speed the clearance and release of imported goods.

Cross border and transit

There are significant differences in performance at the borders with Turkey, Jordan, Lebanon and Iraq, largely dependent on the perception of national security risk. With the exception of the Iraq border they are not excessive, at least on the Syrian side. Import goods are subject to random inspections, and even many transit trucks are opened for inspection. However, TIR trucks are only delayed by the strictly imposed convoy requirements. Truck processing at the border takes about one day to complete, largely due to the processing by brokers, the convoy system and other security measures.

Goods in transit are transported under the T1 of the SAD, which is needed in addition to TIR carnets. T1 is computerized in Asycuda World but so far TIR is not. T1 involves a primitive and inadequate bond system, with the bond not being formally linked to the shipment. There is a GAFTA insurance orange card and otherwise little impediment to cross and the regional driver and truck carnets appear to deduce border delays.

Transport Services

Truck operators

Syria is struggling to move out a collectively organized system of freight transport. A strict queuing system is still maintained for transport to and from ports. This does not apply to transportation on own account or the remaining state-owned transport companies that operate their own trucks, such as for the transport of sugar.

The queuing system results in a very low usage of trucks, estimated to be less than 3,000 km per month, comparable with the lowest in the world, the African states of Chad and Cameroon that also operate a strict queuing system. The gross inefficiencies of the queuing system are well known:

- It makes it difficult if not impossible for a trucker to organize a return load without having to wait perhaps for days;
- It encourages widespread ownership of small truck fleets, often one truck owned by a family. While guaranteeing an income to a few thousand drivers and their families, it imposes very high costs on everyone else.
- There is no incentive for truck operators to provide a good service, as they cannot contract directly with shippers, traders or freight forwarders.
- It prevents the emergence of competitive and quality providers of services, such as are expected to be available for international logistics operators and traders.

To some extent, the impact of these inefficiencies of truck tariffs was mitigated by a subsidy on the price of diesel fuel. However, with the elimination of the subsidy shippers and traders now face the negative impacts of the queuing system without any compensating advantage. The truck tariff from either Tartus or Latakia is now high enough to impact on the prices of imported goods, and to be a significant barrier to exporting.

Investment Law number 10 did encourage the creation of some organized trucking companies by providing fiscal incentive to buy trucks. However, the companies did not develop in the face of continued operation of the queuing system. A form of freight sharing emerged that benefited neither the family owned truckers or the new trucking companies. The main beneficiaries of the Investment Law appear to be industrial rather than transport companies, which have used the Law to help in rebuilding their own account fleets for their own accounts.

In February 2011 Syria signed a Memorandum of Understanding with the IRU to facilitate reform of the Syrian trucking industry and for promoting increased international road transport.

Transit Operators

Since Syria is a country of transit and an active member of the TIR convention, there are specific provisions for operators involved in international transit. Transit companies operating under the TIR regime or purely under the domestic international transit procedures should comply with the following customs regulations:

- Own at least six trucks
- Deposit of 1 million SYP (less than U$1,000)
- Have employees and (associated brokers) at each border post where they are allowed to operate, and provide an additional deposit of 0.7 million SYP per border post

As with the queuing system, these minimal provisions encourage small-scale operations. The deposit guarantee is so small that it covers the duties and the tax payable on one or perhaps two trucks. So the provision on the number of trucks owned is more constraining. With a low average number of trucks per international operator, Syrian trucking companies find it hard to compete with Turkish or even Jordanian transit trucking companies. The situation is exacerbated by having the largest international trucking market dominated by a joint Syrian-Jordanian government owned company.

As from January 2011, Syria has replaced the convoy system for international transit trucks and domestic transit trucks (with in-bond cargo from ports to ICDs) with a GIS based system. This innovation is expected to have a dramatic positive impact on the time for both international and domestic transit truck movements.

Transport infrastructure

Tartus and Latakia ports have recently been modernized. Both are implementing landlord-agency managements systems and both have concessioned their container operations, three years ago in Tartus and more recently in Latakia. Although both ports have sufficient capacity for their current levels of operation, the expectations of gaining a large share of the coming Iraq transit trade has led to plans for substantial expansion. This is in terms of berth length and access channel depth, container stacking areas and handling equipment.

Road infrastructure is not a major bottleneck as far as the ports and international corridors are concerned, but schemes for construction of additional capacity in the main transit corridors show acceptable financial rates of return and are likely to be implemented section by section as traffic increases. Funding for upgrading of road links on the East West corridors that cross Syria is included in the latest Five Year Plan. Funding of road maintenance remains a major problem and substantial sections of the international and transit corridors will need reconstruction before they can deal with high volumes of large and probably overloaded trucks. While the latest Five Year Plan includes funding for the specific improvements, adequate funding for routine maintenance is still lacking.

There is also funding in the new Five Year Plan for upgrading and completing the trade routes of the railway. These include sections leading to and linking Latakia and Tartus, as well as in the north south corridor linking Damascus to the Turkish border. The Five Year Plan also included funding to complete the rail link in the central East West corridor from Deir-El-Zour to the border with Iraq at Abu Kamal, and in the northern East West corridor from Aleppo to the border with Iraq at Al Yaroubia. A longer term plan to build a new link from Al Sharkeia to Deir-El-Zour would significantly reduce the rail distance from Tartus to the Abu Kamal border and to a much lesser extent from Latakia to the same border crossing. There is funding in the Five Year Plan for inland multi-modal terminals to facilitate the transit traffic from Turkey and Latakia to Jordan and Iraq respectively, but the financial viability of these plans has not so far been investigated.

The distance from northern Syria and Turkey to the Gulf area is significant (2000 km or more) which is would be enough to interest shippers in using rail transport, if the volumes were high enough to justify the initial investment. However, it would be a major challenge, which may not be justified by the volume of trade: current volumes are small (300-500 truckloads a day, less than 2 million tons per year), far below the benchmark of 10 million tons needed to justify the investment of the order of U$1 million per km. Despite this adverse financial prospect, Jordan is far advanced in planning a new standard gauge rail link to Syria, and Turkey has indicated a willingness to upgrade its section of the corridor.

Recommendations

Trade facilitation services

Freight forwarding, customs broking and logistics industries need more professionalism if they are to handle more demanding electronic data documentation. Some form of regulation and creation of professional organizations would be advantageous in this respect. Although these are essentially private sector services, support from public agencies, such as through licensing and training can speed up progress.

The introduction of Asycuda World, and the changes that it brings, can provide a useful stimulus to this modernization of trade facilitation services.

A complement to AW could be implementation of an authorized traders and operator regime, which would provide them with simplified customs and other procedures, such as temporary admissions and the use of bonded factories and warehouses. In the last twelve months there has been progress on development of a common Golden List system between Syria, Jordan and Lebanon. When implemented this should significantly increase the proportion imports that enter without physical or even documentary inspection (other than for security reasons).

Trucking services

An efficient international trucking industry needs a secure national industry to provide its foundation. This cannot be created while the queuing system continues to operate. But replacing the queuing system will not be enough. It needs to be accompanied by a truck company licensing system that provides technical and financial incentives for family operators to become licensed companies and for trucking companies willing to modernize their operations. Jordan provides a close-by example of how this could be done. The recent Memorandum of Understanding with the IRU should be a constructive first step in restructuring the Syrian trucking industry.

While Syrian truck border crossing arrangements with Jordan are efficient by regional standards, if the North –South corridor is to operate to Syria's advantage, further improvements are needed. These could include automatic weigh-in-motion of trucks and axle loads to replace the current visual pre-inspection in border crossing processing (Jordan, Turkey).

Transport infrastructure

Many of the transport infrastructure proposals under consideration appear to have merit, but they have not so far been rigorously appraised. The EuroMed project provided pre-feasibility studies of two projects and the Ministry of Transport has commissioned full feasibility studies of some road projects on international corridors. The port and multi-modal projects were assessed and supported by an EU funded Multi-Modal Transport Study. Of particular relevance to both the North South and central East West corridors would be construction of the Damascus by pass.

Neither of the EuroMed studies included financial assessments. Those commissioned by the Ministry are still under review. The Multi-Modal Study did not extend to a financial analysis. Before any further consideration is given to any of these trade-related transport investments, they should be subjected to more demanding economic and financial assessments.

5. WEST BANK AND GAZA

Context

Palestine is in a State- building stage with many constraints imposed by the stagnation of the political negotiations with Israel. Therefore, many of the challenges facing trade will only be resolved with the successful conclusions of the negotiations between the parties. Still, the private sector led trade has been at the forefront of improving Palestinian traders' access to existing markets while efforts also are exerted to seek new markets.

Given its strategic location east of the Mediterranean, there is potential for increased Palestinian trade with its neighboring countries as well as with the international community. Although Palestine is surrounded by Israel, it does have direct borders with Jordan (West Bank) and Egypt (Gaza). Through Jordan it has access to international sea services (via the port of Aqaba) and air services (via Queen Alia Airport in Amman) and through the regional road network to the other Mashreq countries as well as to Egypt, Saudi Arabia, the Gulf States, and via Syria and Turkey to Europe and Central Asia. Through Israel it has access to shipping services (via the ports Ashdod and Haifa) and air services (via Ben Gurion Airport in Tel Aviv). Access from Gaza to Egypt (via Rafah) would give an alternative route not only to Egypt but also to Saudi Arabia and the Gulf States.

Palestine is already benefiting from a number of trade agreements including that with the European Union, United States, Jordan and Egypt. In addition, there is the general Arab League agreement which provides opportunities for Palestinian products to access the members markets as part of the political support to Palestine.

Main Trade Routes

Palestine's main trade routes are via the Allenby Bridge across the Jordan River, giving access to Aqaba seaport and Queen Alia Airport in Amman and by land to the Arab Gulf countries and Iraq, and via Ashdod and Haifa seaports (and Ben Gurion airport) in Israel, to USA, EU, Latin America, and even to Iraq.

Main Issues

Trade Facilitation

Israel imposes serious constraints on Palestinian access to external markets. The key constraints facing Palestinian trade to or via Israel include:

- access within the West Bank prior to even reaching the border crossing with Jordan or with Israel itself;
- a back-to-back truck loading system which does not allow trucks to cross through but rather unload the goods of the Palestinian trucks through the inspection and back again on the back of an Israeli truck to its destination in Israel or to the airport or the seaports;
- severe scrutiny measures imposed at the border crossing with Jordan (at King Hussein (Allenby) border crossing) and the commercial crossings between the West Bank and Gaza and Israel;
- additional inspection measures at the border crossing with Jordan and at Ben Gurion airport and Ashdod and Haifa seaports;
- a lack of facilities for cold storage for perishables at the borders, despite the long transport delays;
- lack of a preferred trader system and no risk management at the borders; and
- absence of container scanners at borders and all cargo is subject to physical inspections.

Lengthy and costly customs clearance procedures. Customs clearance has been within the control of the Israeli authorities. No presence of Palestinian customs officials at the border crossings. Palestinian traders are required to utilize the services of Israel brokers to facilitate custom clearance of their goods.

Asycuda World was developed and made operational at the Rafah border crossing between the Gaza Strip and Egypt in November 2005 and is expected to be implemented in the West Bank by July 2009 with a link to the Jordanian system. However, there is no arrangement with Israel for the sharing of customs data.

Customs clearance procedures within the PA institutions are also cumbersome. Currently, there are a number of institutions that provide clearances to imported goods, including Ministries of Finance, National Economy, Transport and Agriculture in addition to the Palestinian Standards Institute.

Since no Palestinian custom agents are allowed in Israeli airports, seaports or border crossings, Palestinian traders are subjected to higher fees associated with Israeli custom clearance agents.

Transport Services

The Palestinian trucking industry is not allowed to play its full role in the trading process. Trucking services within the West Bank are inefficient and costly to users, both attributable to:

- the high number Israeli controlled checkpoints throughout the West Bank causing long waiting time;
- inability to provide door-to-door service due to the back-to-back system introduced by Israel at the commercial crossing terminals;
- need to contract more expensive Israeli licensed trucks to transport goods from the commercial terminals to the airport or seaports, enduring additional costs due to delays caused by the physical inspections at these terminals;
- Palestinian licensed trucks are not allowed to cross on-to Jordan for delivery of goods.

West Bank air freight exports through Ben Gurion airport in Israel can only be transported in freight-only aircraft, not in the freight holds of passenger aircraft as is usual for small volumes of air freight. Queen Alia airport near Amman now offers service almost on par with Ben Gurion. Combined with the high cost of ground transport to Ben Gurion and its high security fees, Queen Alia airport in Jordan is more competitive. The main constraint to greater use of this airport is the difficulty of crossing the Allenby Bridge.

Trade and logistics patterns

Foreign Trade

The main exports are stone and marble, pharmaceuticals, textiles, flowers (primarily from Gaza), agricultural products, food products including meat, olive oil, cheese and yogurt products, fruit and soft-drinks, strawberries (primarily from Gaza) sweets and cereals. Imports come from the USA, Europe and Asia, are either by land, air or sea (via Jordanian and Israeli borders and air and sea ports).

In 2006, the last year for which reliable data is available, nearly 88% of Palestine's approximate U$340 million of exports were to Israel, with a further 10% to members of the GAFTA, and only 2% to other countries. The pattern of imports is rather more diverse. Although Israel accounts for more than 84% of the total, the remainder is split between the EU countries (10%), members of GAFTA (2%), nearly 1%

from countries in the American continent and 3% from the rest of the world. With total imports valued at U$2,835 million, there was a trade deficit of about U$2.5 billion.

Current operations, delays and capacity

The specific procedures for transferring goods vary from one crossing point to another; however, the basic procedure is the same for all. For goods outgoing from the West Bank to Israel, palletized cargo is transferred from a Palestinian vehicle to an Israeli vehicle by forklift after undergoing a security inspection using a mobile scanner. Additional manual or canine inspection is used where deemed necessary. For goods incoming to the West Bank from Israel, the cargo is transferred in the same manner but without any security inspection for most goods.[41]

The Allenby Bridge and Accessing Jordan

All Palestinian products moving to or from Jordan must cross the Allenby Bridge, which is a cumbersome and inefficient process that adds to the cost and discourages West Bank traders from using the Jordan routes. Cargo is downloaded from Palestinian trucks inspected and then uploaded onto Jordanian trucks. This process typically takes 4-8 hours but can be much longer if there are any problems. Containers are not allowed to cross the border and all cargo must be on small pallets.

For imports to the West Bank, all cargo is scanned and some of it is manually searched by Israeli security. The scanners at Allenby are small and cannot handle large cargo. The size of the pallet depends on the type of good, but the largest pallet can only be 1.6 m high and for more dense articles the pallets must be even smaller. Shippers report that for some items that must be reconfigured into very small loads for scanning, the handling costs are higher than the actual charges for transportation. Very large cargo that cannot be accommodated by scanners at the bridge is taken to Ashdod port – at the shipper's expense – for scanning, which is a significant cost and delay.

For outgoing cargo, Israeli security only occasionally searches the cargo before it is put on Jordanian trucks. In Jordan, Customs assigns all goods into green, red or yellow lanes (no inspection, document inspection and cargo inspection) depending on the level of risk and shipments are inspected jointly by customs, the military and security. Red cargo is subject to 100% physical inspection and because Jordan uses a relatively unsophisticated risk management system, there is a high level of manual inspections. While both Jordan and the PA utilize the Asycuda system for customs processing, there is no linkage between them since Israel, which is the intermediary, does not use this system and is reluctant to share data.

Though the inspection area where imports are scanned is air conditioned, trucks queue and all cross loading operations take place in an open area. There is no provision for protection of perishables and the border authorities can require the trucks to remain in the open area for an extended period if there are "problems with the customs documentation." In addition the Israeli authorities require notification of the arrival of the cargo at the crossing at least one day in advance.

Goods destined for Jordan are moved to an inland clearance facility where the goods are checked again. For this movement, the customs broker must provide a customs bond and the truck is sealed and driven to the inland customs facility as part of an informal convoy, with customs officers accompanying those trucks having high value cargoes. At the inland facility, the seal is checked and there is a second

[41] Some incoming cargoes are inspected, e.g. flour, sugar, some liquids. In addition there are random inspections.

application of the green-yellow-red lane inspection regime. While it is unlikely that the goods will be subjected to a physical inspection at both the border and the inland facility, this redundant system guarantees that a very high percentage of the cargoes are physically inspected.

Transit cargo moving through Jordan is treated as a temporary admission. At the bridge the cargo is subject to the same risk assessment as cargo destined for Jordan and goods assigned to the red category are manually inspected. The customs broker must provide a bond, the truck is sealed and the driver of the transit vehicle surrender his passport. The vehicle then proceeds to the designated exit crossing as part of a convoy. Upon arrival, the truck seals are rechecked at the exit point and the driver's passport is returned. The account of the shipper/consignee is debited from the amount of duties and taxes and this is balanced by a credit given at the time the cargo arrives at the exit point. The maximum period for temporary admission is six months, after which the shipper/corridor must pay the outstanding duties and taxes. For high-value goods, customs may require an escort for the goods transiting Jordan. For transit cargo destined to the Gulf, the seals are checked at the Saudi border and the truck continues to the other side of the border where the Saudi customs again inspect the cargo.

The difficult and complicated procedures for crossing the border reduce the usefulness of Jordan as an outlet for Palestinian goods. The lack of cold storage and requirement to conduct back-to-back cross loading prevents the export of sensitive, high value agricultural products such as cherry tomatoes and peppers. Likewise, conditions at the border make it difficult to import or export pharmaceuticals and medical equipment, that require a temperature controlled, dust free environment. However, more robust products such as potatoes, cauliflower and carrots, can be sent across and through to the Gulf using refrigerated trucks on both sides of the border.

For very time-sensitive crops such as flowers and herbs, it is necessary to ship the goods by air and for these Queen Alia offers competitive rates and service. In fact, for shipments to the Gulf and Asia, the Jordanian airport is significantly less expensive. However, because of conditions at the bridge, most Palestinian shippers continue to use Ben Gurion with shipments controlled by Israeli traders in order to obtain expedited service. In the first half of 2008, there were some successful shipments of herbs and pharmaceuticals across the bridge and through Queen Alia. These were specially coordinated and are not the norm.

Similar to the Commercial Crossings in the West Bank, the restricted opening hours and limited capacity of Allenby crossing is a constraint to Palestinian trade. The Israeli side operates only five days a week, closes on Israeli holidays and can remain open from 8 a.m. to 6 p.m. if required. However, since it can take several hours to send a cargo across, most shippers try and avoid Thursdays in case they are unable to complete the crossing before it closes. Israeli authorities state that Allenby can handle 70 export trucks and 50-60 import trucks per day, but this includes marble exports, which require a cursory inspection in the open area. Currently, there are on average only about 30 trucks of imports and 30-40 trucks of exports moving through each day. Given the limited capacity, lack of cold storage and protected facilities, risk of damage from inspections on both sides and the uncertainty of how long it will take to cross, the Allenby Bridge is not perceived as a good option by most Palestinian shippers unless their goods are destined to Jordan or the Gulf.

Port of Aqaba

The Port of Aqaba is the closest Arab port to the West Bank and offers a modern facility that with access to the international shipping routes. Typical times from Aqaba are 2-3 weeks to Singapore, 3-4 weeks to China, 2-3 weeks to the Gulf, 2-3 weeks to Northern Europe and 3-4 weeks to North America.

For goods being imported into the West Bank & Gaza through Aqaba, because Israeli scanners at Allenby can only accept pallets, containers must be unstuffed either at the port or the Jordanian side of the border and then palletized for movement across through Israeli security. Either option is expensive, costing of the order of 300 JD for a 40 foot container, bringing the total land transport cost of a 40ft import container from Aqaba to the West Bank to over U$1,000.

Cargo clearance procedures for imports through Aqaba are slow due in part to inefficiencies of terminal operations. Contributing to the delays is the inspection regime, which though based on risk profiles and green, yellow, and red; results in a relatively high proportion of goods being physically inspected. Added to this is the time in port while the declaration is being filed (there is no provision for pre-clearance), and the time required to move the cargo to the location where it is inspected. As a result, goods require at least two days in port and generally require 3-4 days to be cleared. Israeli ports are both less expensive and faster for shipments to North America and Europe, and less expensive but slower for cargo to Asia.

Access to the Gulf

The Arab Gulf countries are a large and potential market for Palestinian products. But they are hard to access since Israel does not have direct trade relations with them. Palestinian goods reach the Gulf by road across Jordan to Saudi Arabia, then along the Persian Gulf, a total distance of over 2,500 km. Total transit time is six to seven days. The price for a truck from the West Bank to Dubai is about $1,500 and about $2,200 for a refrigerated truck. For a loaded return trip, the transport cost for a normal truck would be $2500-$3000.[42]

This route has a significant advantage relative to a sea shipment via the port of Aqaba where the total cost more than U$3,000 one way and the total travel time is 13-15 days.

Transport Infrastructure within the West Bank and Gaza[43]

The Palestine territories have a road network of about 4,900 km of which rather less than half are major roads that connect the cities with each other and border crossings. All these major roads (about 2,000km) are two-lane paved roads with a width of between 4 and 7 meters, other than about 13km of four-lane divided roads around Jerusalem. The paved road density per person is about 80m per 100 people, less than one third of the 266m per 100 people in Israel. The other roads are mostly unpaved with a width of between 3 and 6 meters. The condition of the road network is appalling, with more than 56% in need of major rehabilitation even before the 2008 destruction in Gaza.

The development of a deep-water port in Gaza was halted in 2001 before it was sufficiently completed to become operational. The first phase of the port development envisaged a 200 meter cargo berth, a RoRo berth and a berth depth of 11 meters. No gantry cranes were planned for this phase, reliance on shipboard cranes being considered adequate.

A Palestine Civil Aviation Department was created in 1994 and Gaza International Airport opened in 1998, with one runway suitable for aircraft up to Boeing 747 dimensions and weights, and associated air traffic control facilities. There are currently no international air transport services, the airport having been destroyed in 2002 and not reconstructed since. However, Palestinian Airlines continues to operate between Queen Alia Airport in Amman and Al-Arich airport in Egypt.

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[42] All cost and time estimates in this section are drawn from interviews with regional shippers in late 2007.
[43] This section relies heavily on the EuroMed Report Part II Country Issues, Module 9, Palestinian Territories December 2004.

There is no rail infrastructure in the West Bank or Gaza.

Recommendations

Customs Brokers

An on-going USAID financed Trade Facilitation Program aims at developing the legal framework for Customs Brokers. But with the introduction of Asycuda World it is possible for forwarders and even traders to complete their own customs documentation. Therefore, the need for specialized and independent customs brokers is reducing. The profession could be merged with that of freight forwarders.

Import and export in containers

There do not appear to be any security reasons for Israeli customs to insist on pallets rather than containers being used at the Allenby Crossing, so it might be possible for the Palestinian Authorities to provide a container scanner for use by the Israeli Customs for examination of containers destined for the West Bank. With an investment cost of about U$5 million and a current import of about 3,300 containers per month, the payoff period for the Palestine economy would be less than 4 months.

West Bank Access

The main bottlenecks to trade between the West Bank and the outside world are the internal movement restrictions and the inefficient operation of the Allenby Bridge. These trade impediments cannot be resolved by technical or operational measures, but some of the operational consequences could be reduced. Provision of improved border facilities including covered accommodation and improved road access could be negotiated as a joint activity, and Israel could be encouraged to introduce risk management procedures at the border crossings.

Crossing to Jordan

Better coordination between Palestine and Jordanian authorities could reduce some of the impacts of Israeli security activities. Improving operations at Allenby Bridge could make Aqaba port more competitive alternative and encourage greater use of Queen Alia airport. Measures could include:

- Extending opening hours to accommodate to allow just-in time delivery.
- Increase the amount of handling equipment. There is so little at present that it is shared between exports and import
- Provide cold storage facilities
- Allow containers to be transported without being unstuffed at the border or in Aqaba.
- Expand risk management system on the Jordanian side.
- Re-opening the Damiah Bridge, north of Allenby Bridge. This would require renovating the facilities and possibly replacing the bridge

Logistics Center

Palestinian shippers have suggested the idea of a logistics center on the Israeli side of the bridge. Such a facility would provide cold storage and a place to hold cargo until it can cross. Most importantly, it could provide a secure location where containers could be brought from Jordan and stuffed with Palestinian goods.

Transport Infrastructure

A new freight airport is being planned for the Jordan Valley. This could provide a feasible alternative to reconstruction of the Gaza Airport, which has a low probability of happening in the foreseeable future. There is a slightly higher probability that the Gaza port could be completed than the Gaza Airport reconstructed, but not much, so improved access to Aqaba remains the most viable option for Palestinian access to shipping services.

Most of the road infrastructure in the West Bank is in need of rehabilitation, but more for its impact on domestic trade and passenger transport than on international trade. However, the potential trade benefits from any road rehabilitation are overshadowed by the constraints imposed by the Israeli Security Barrier.

ANNEX 2 – SOME RECENT RELATED REPORTS AND STUDIES

Box 1. Some recent UNESCWA activities in relation to trade and transport facilitation

-UNESCWA Perspective on Global Challenges to the Future Development of Seaports as Interface with Inland Transport and Emerging Policy Recommendation, September 2008

-Developments in Globalization and Regional Integration in the Arab Countries, December 2007

-Final Seminar for the Interregional Transport Linkages Project: Best Practices and Lessons Learned, Abu Dhabi, October 2007

-Interregional Seminar on the Economic Assessment of International Transport Linkages and On Transport Facilitation, Cairo, June 2007

-UNESCWA Study on the Economic Benefits of a Common Transport Area between Jordan, Syria and Lebanon, Barcelona, May 2004

-Agreement on International Railways in the Arab Mashreq, March 2003

-Manual For The Establishment Of National Trade And Transport Facilitation Committees In The Countries Of The Economic And Social Commission For Western Asia Region, December 2002

Box 2. EUROMED Reports Directly Related to Mashreq Countries

Regional Transport Action Plan for the Mediterranean Region, 2007- 2011, December 2004
Diagnostic Study; Part 1: Regional Issues,
From Diagnostic to Action Plan,
Cross Border and Cross Sector Transport Issues
Meda Economy, Trade and Transportation
(Sub) Regional Integration
Diagnostic Study Part 2: Country Studies
Country Studies for Lebanon, Jordan, Palestine Territories, Syria
Pre-Feasibility Studies:
New Border Crossings to Syria (from Lebanon)
Haifa to Best She'an and to Iraq via Jordan
Road Upgrading from Aleppo to Al Yarubia on the Iraq border
Technical Notes
21 Border Crossings

ANNEX 3 - TRADE OF MASHREQ COUNTRIES

To provide some indication of the size of the trade facilitation task over the next two decades, an indication of the probable level of demand is required. The indications need not be very exact, just precise enough to give an indication of the scale of infrastructure and services that will be needed.

The final outputs are estimates of:

- the total value and volume of international trade of each of the five countries
- the types of products that are likely to be traded
- the region of origin of imports and of destination of exports
- how the proposed recommendations might increase the total trade and the shares going to of coming from Mashreq and other regions

Method of making trade estimates

Data sources

The base date for most of the analysis is 2005. Use of a different base year or an average of several years or of a trend in the base statistics might result in different projections. For some of the analysis the data source is the World Development Indicators (WDI) database, while for others it is the World Integrated Trade Solution (WITS) or the IMF Development Outcome Tracking System (DOTS) databases. All of these are based on the same IMF statistics, but there might be minor differences in projections derived from the WDI database compared with the WITS or DOTS database. Further, all of the databases might have slightly different data to other sources, such as the published national statistics of the Mashreq countries. However, as the projections are only intended to be used a source for the magnitude of the logistics task facing the Mashreq region, we would not expect any difference in the source data to indicate a different scale of the logistics task.

Value and volume of exports and imports

The projections of the value of exports and imports are expressed as a percentage of GDP. So the drivers of the trade projections are the growth of GDP and the import and export shares of GDP. Projections of GDP are based on WB short and medium term projections (mostly they do not go beyond five years), extrapolated at two thirds of these rates up to 2025. Trade shares of GDP are based on assumption of a regular annual move towards the trade shares of GDP for an average of low and middle income countries so that these averages are reached in 2025. GDP projections for Iraq are very speculative as they depend on expectations of an increase in oil exports. Two scenarios for Iraq's GDP growth have been used, the first assuming a more modest growth in oil exports and a lower trade share of GDP. Projections have also been made of the types of product traded. The three types of product (high and low value bulk products and containerized products) have different trade facilitation and transport needs.

Types of products that are traded

Three categories of traded goods are used based on their different facilitation and transport needs. These are:

- containerizable goods
- high value bulk goods and
- low value bulk goods

The first of these includes nearly all consumer goods and many manufactured goods. The second category includes bulky industrial goods that are too large to be put into containers, while the third category includes many low value, high volume goods that are less costly to transport in bulk, even though they could often be containerized.

The projection of the containerized share of products traded was based on an assumption that each of the countries would increase its containerized trade until it reached the average of 0.2 TEU per person for developing countries.[44] For bulk products, estimates of their share of total traded goods were extrapolated from past trends, but with an additional shift from low value to high value bulk goods.

Regions of destination of exports and origins supply of imports

This is one of the most important estimates to be made, as it will determine where trade facilitation and transport infrastructure will most be needed. The estimates are based on current destinations and origins, modified by expectations of changes in global and regional patterns of demand and supply. In addition to the Mashreq counties, other countries are grouped, e.g. EU, other Arab states, Russia and Central Asia, and others.

Results

Value and volume of exports and imports

The first results are for the projection of total values of non-petroleum trade, shown separately for exports and imports, as a share of GDP.[45]

Table 10: Current and Projected Values of Imports and Exports for Mashreq Countries as % of GDP

Country	**2005** Non-oil export share of GDP	Import share of GDP	**2015** Non-oil export share of	Import share of GDP	**2025** Non-oil export share of GDP	Import share of GDP
Iraq(1)	2%	94%	6%	65%	6%	45%
Iraq (2)	2%	94%	10%	70%	20%	50%
Jordan	53%	72%	58%	65%	63%	45%
Lebanon	21%	43%	25%	31%	335	30%
Palestine	14%	68%	20%	65%	25%	50%
Syria	14%	29%	20%	305	30%	33%
Lower Middle Income	35%	33%	35%	33%	35%	33%
Middle Income	33%	30%	33%	30%	33%	33%

Source: For 2005, WDI Database, for 2015 and 2025 Authors assumptions

The export and import share of some other countries are provided for comparison. These show the wide range of values for trade as a percentage of GDP. The counties with high values of both exports and

[44] Ports, Cities and Global Supply Chains, James Wang et al, Ashgate Publishing Ltd, Aldershot, England, 2007 2007, page 83

[45] For Iraq two sets of projections are provided, each based on a different set of assumptions, for details see Chapter 5 on Iraq.

imports as a share of GDP are those with a high re-export volume they import components and add value by making them up into complete items, usually garments or electrical products. The countries with high export values compared to GDP are mostly petroleum exporting states. These differences indicate the importance of selecting comparable states when making this type of international comparison.

Table 111: Non-Oil Exports and Imports[46] as a share of GDP for Selected Countries (2005)[47]

	Exports	Imports	Non-oil Trade
Jordan	53%	72%	125%
Lebanon	21%	34%	45%
Syrian Arab Republic	14%	29%	43%
Iraq	2%	94%	96%
West Bank and Gaza	14%	68%	82%
Mashreq average	21%	55%	76%
Bahrain	40%	76%	116%
Egypt, Arab Rep.	30%	33%	63%
Iran, Islamic Rep.	33%	25%	58%
Israel	43%	43%	86%
Kuwait	5%	28%	33%
Malaysia	94%	95%	189%
Mexico	27%	29%	56%
Saudi Arabia	6%	28%	34%
South Africa	27%	28%	55%
Tunisia	50%	50%	100%
United Arab Emirates	39%	71%	110%
Middle East and North Africa	35%	33%	68%
Lower middle income	35%	33%	66%
Middle Income	33%	30%	63%
Average	55%	44%	99%

Source: IMF DOTS

Trade projections

The next outputs are the values of exports and imports are found my multiplying the export and import shares of GDP by the estimated values of GDP for 2015 and 2025.

These projections indicate that non-petroleum related exports from Jordan, Lebanon and Palestine are likely to double by 2025, while Iraq's non-petroleum exports could increase at least six fold, but from a very low base. Jordan would have the lowest increase in exports since its exports as a share of GDP is not expected to increase. Other than Iraq, Syria would have the largest increase in value of exports, more than three and a half times, as it approaches the lower middle income country average from its current low export share of GDP. Lebanon would also more than triple its export value, and Palestine's exports would more than double.

[46] Subsequent tables and text include oil trade unless specified otherwise
[47] This data excludes petroleum based trade, included in subsequent tables

Table 12: Current and Projected Export and Imports for Mashreq countries (U$ billion)

Year	**2005**		**2015**		**2025**	
County	Export	Imports	Exports	Imports	Exports	Imports
Iraq(1)	1.6	88.2	7.2	117.3	20.4	183.2
Iraq (2)	1.6	88.2	11.7	102.3	39.5	164.7
Jordan	10.1	13.8	16.4	19.3	29.0	27.6
Lebanon	5.9	9.5	9.2	11.4	17.0	15.5
Palestine	0.9	4.5	1.6	5.3	2.2	4.3
Syria	6.4	12.9	12.4	18.5	27.7	30.5
Total	24.9	128.8	46.8	171.8	96.3	261.1

Source: 2008 WBI Database, 2015 and 2025 Authors Projections
The data source for 2005 is the World Bank WBI database and the data do not necessarily coincide with data from other sources

Imports would increase much less significantly, and actually fall for Palestine as its economy becomes more balanced. Jordan would have the smallest increase as it current high proportion of non-oil imports would reduce to a share closer to the average for Middle Income countries. In contrast, Syria would have the highest increase in imports as the level increases from its low share of GDP to closer to that of the Low Middle Income countries. Iraq's imports would increase close to the average for the Mashreq countries, as the fall in share of GDOP would be more than compensated for the rapid growth in GDP attributable to increased petroleum production.

Types of products that are traded

The third output is the share of exports and imports that are containerized, high value bulk solids and low value bulk solids.

Table 13: Bulk and Container shares of Exports and Imports by Value

	Exports			**Imports**		
Year	2005			2025		
Country	Bulk High value	Bulk Low value	Container	Bulk High value	Bulk Low value	Container
Iraq	36%	6%	58%	10%	25%	65%
Jordan	5%	15%	80%	5%	5%	90%
Lebanon	6%	3%	91%	3%	2%	95%
Palestine	2%	8%	90%	5%	10%	85%
Syria	2%	6%	92%	3%	2%	95%
Total	7%	9%	84%	8%	18%	74%

Source: Authors estimates

The total share for each product type is found by weighting the country shares. The high average for bulk low value exports is attributable to Jordan's high export volumes of phosphate and fertilizer, while the high average for bulk low value exports is attributable to Iraq's continued need to import large volumes of basic food such as wheat and rice.

Unit values of bulk and containerized trade

We assumed values of U$40,000 per TEU for containerized cargo and U$2,000 per ton for bulk cargo. The value for containerized cargo is an average of many products, but most of the exports are electrical machinery, garments and pharmaceutical products. There are two types of bulk products with very different unit values. The first is mineral products, including fertilizer and stones, with an average value of about U$750 per ton. The other type is typically large electrical or mechanical equipment or machine tools with an average value of about U$4,250 per ton. Combining these unit values to the proportions of each type of product and the total value of exports and imports produces the projection of the volume of each category of traded goods.

Projection of trade flows

The following two tables show the projected export and import volumes of bulk freight of the two types (high and low unit value) and of containerized products. A noticeable feature of these projections is the low number of container movements. In part explanation, it should be realized that these figures are based on country trade flows based on GDP projections and do not take account of donor funds or reconstruction imports. These limitations are particularly relevant for Iraq and Palestine.

Table 14: Projected total volume (Exports plus Imports) of Mashreq Countries

	Exports plus Imports			**Exports plus Imports**		
	2015			2025		
Country	Bulk High value m tons	Bulk Low value m tons	Container m TEU	Bulk High value m tons	Bulk Low value m tons	Container m TEU
Iraq (1)	15.9	5.8	1.7	20.3	6.6	1.9
Iraq (2)	17.0	5.5	1.6	25.8	6.5	2.1
Jordan	2.0	0.97	0.7	2.5	0.9	0.8
Lebanon	1.3	0.1	0.5	2.1	0.2	0.8
Palestine	0.4	0.2	0.1	0.3	0.1	0.1
Syria	1.0	0.2	0.7	1.5	0.4	1.1
Total	20.5	7.0	3.6	26.7	8.2	4.7

Note: All totals exclude Iraq (2)

These projections are only for the trade originating in (exports) and terminating in (imports) the countries, so transit trade (that en route to a third country) is not included. The projections for containerized trade also only relate to loaded containers, so empty container movements are not included (these are substantial for countries that have a high trade imbalance of containerized goods). Based on the projections in the following tables, the number of empty container movements from Mashreq countries could reach almost 2 million TEU by 2015 then reduce to about 1.6 million TEU by 2025 as the trade imbalances of containerizable goods also reduce. A third omission is freight for the reconstruction of Iraq, for which the projections are provided separately in Chapter 4.

Table 15: Projected export share (by volume) of total trade

Export share %	**Export share %**

Year	2015			2025		
Country	Bulk High value %	Bulk Low value %	Container %	Bulk High value %	Bulk Low value %	Container %
Iraq(1)	18%	1%	5%	29%	3%	9%
Iraq(2)	29%	3%	9%	46%	5%	18%
Jordan	44%	70%	41%	47%	73%	44%
Lebanon	62%	55%	44%	69%	62%	51%
Palestine	11%	20%	25%	17%	29%	35%
Syria	31%	67%	39%	38%	73%	47%
Total	24%	12%	24%	34%	16%	31%

Note: Totals exclude Iraq (2)

Regions of destination of exports and origins supply of imports

Current share of trade within Mashreq countries

There are four potential sources, from which to estimate the share of the total share of Mashreq trade, between the countries themselves. Each source leads to rather different conclusions, but all three show the overall inter-Mashreq share of trade is quite high compared with other country groups. The first source the IMF Direction of Trade (DoT) data, the second is the various UNESCWA studies and annual reports, the third is the 2004 EU funded EuroMed Project, and the fourth is the Comtrade data available from the IMF.

Table 16: IMF DOT: Intra-Mashreq share of total export trade by value (%, 2007)

	From/To	**Lebanon**	**Jordan**	**Iraq**	**Syria**	**Total**
EXPORT	Lebanon		2.9%	2.6%	25.2%	30.7%
	Jordan	1.8%		12.9%	4.9%	19.5%
	Iraq	0.0%	0.0%		2.6%	2.6%
	Syria	10.0%	2.3%	30.0%		42.3%
	From/To	Lebanon	Jordan	Iraq	Syria	Total
IMPORT	Lebanon		0.8%	0.0%	12.1%	12.9%
	Jordan	0.8%		0.1%	2.7%	3.6%
	Iraq	0.6%	5.0%		30.6%	36.1%
	Syria	3.9%	1.3%	3.6%	12.1%	8.8%

Note: There is no direct equivalency between import and export percentages (there are in absolute volumes). For example, if Jordan's exports to Syria are 2.6% of its total exports, this does not necessarily mean that 2.6% of Syria's imports are from Jordan. In fact 2.7% are. Similarly 1.8% of Jordan's exports are to Lebanon, but only 0.8% of Lebanon's imports are from Jordan.

While the overall intra-Mashreq share of total trade is low, this is largely influenced by the low share of Iraq, which is still dependent on imports from the EU and USA and for exports to the EU. Lebanon and Syria in particular have high intra-Mashreq shares of trade, while Jordan has relatively high exports to the EU and US and so has a lower share to its Mashreq neighbors.

The UNESCWA data relates to Arab region trade and not to Mashreq trade, nevertheless it provides useful information on the growth of Arab region trade as a share of the Arab countries total trade over time. While the changes in trade orientation of Iraq over this period can be considered exceptional, Syria has more than tripled its intraregional share of trade, while Lebanon has almost doubled its share while that of Jordan has increased by about 20%.

Table 17: Intraregional Trade as share of Total Trade

	2000	2002	2004	2006
Iraq	7.9%	13.0%	14.7%	15.8%
Jordan	28.1%	31.9%	33.6%	35.1%
Lebanon	15.8%	17.6%	24.8%	30.4%
Syria	11.2%	13.6%	23.0%	46.9%

Source: UNESCWA Annual Review of Developments in Globalization and Regional Integration in the Arab Countries, 2007

Although the details of the Mashreq data differ from the IMF data, the same trends and relationships hold for both sets of data. UNESCWA also provides useful comparative intraregional trade statistics for some other economic regions. The high shares of the EU and NAFTA country groups are not surprising and the groupings are different to the Mashreq countries which could be a misleading benchmark. But the low shares for ASEAN and Mercosur, both groupings that have been in existence for many years, are perhaps more surprising. The high Mashreq figure is itself misleading as it includes petroleum products and the Mashreq countries are either principal exporters or importers of these. Perhaps the most reasonable benchmark from these groupings would be that of the ASEAN countries.

The Euromed data was provided, as part of a review of trade among the Mediterranean countries, and as such does not include Iraq. The data is also for 2004, rather earlier than the IMF data and a time when Iraq trade patterns were still dominated by the impacts of the ongoing war.

Table 18: Intraregional Trade as a share of total foreign trade

Region	% share 2006
ASEAN	25.7%
European Union	64.6%
Mercosur	16.0%
NAFTA	67.9%
GCC Countries	5.8%
Arab Counties	11.3%
Mashreq	17.1%
Iraq	2.6%
Jordan	19.5%
Lebanon	30.7%
Syria	42.3%

Source: UNESCWA Annual Review of Developments in Globalization and Regional Integration in the Arab Countries, 2007

Trade of Mashreq Countries with other countries and regions

An analysis of the IMF DTO trade data indicates the main trading partners of the Mashreq countries. Some of the results are shown in the following tables. (The data in the following two tables includes oil and petroleum products).

Table 19: Destinations of Mashreq Exports (2007, based on value)

To	From

Region/Country	Iraq	Jordan	Lebanon	Syria	Mashreq
EU	29.2%	2.9%	11.3%	29.0%	25.3%
GCC	0.0%	18.8%	23.6%	11.9%	6.8%
Turkey	2.0%	0.4%	3.2%	2.4%	2.0%
Saudi Arabia	0.0%	7.5%	5.6%	5.2%	2.6%
Mashreq	2.6%	19.5%	30.7%	42.3%	17.0%
Iraq	0.0%	12.9%	2.6%	30.0%	9.8%
Jordan	0.0%	0.0%	2.8%	2.3%	0.8%
Lebanon	0.0%	1.8%	0.0%	10.0%	2.9%
Syria	2.6%	4.9%	25.2%	0.0%	3.5%
CIS	0.4%	0.3%	0.7%	0.6%	0.5%
Russia	0.0%	0.1%	0.2%	0.2%	0.1%
Ukraine	0.0%	0.1%	0.3%	0.3%	0.1%
Sub total	34.2%	49.7%	75.5%	91.9%	54.4%
Other	65.8%	50.3%	24.5%	8.1%	45.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: IMF DOTS

The share of exports going to the twenty seven EU countries is high (Table 19), averaging over 25%, but this is largely attributable to the oil exports of Syria and Iraq.

Table 20: Origins of Mashreq country Imports (2007, based on value)

From	**To**				
Region/Country	Iraq	Jordan	Lebanon	Syria	Mashreq
EU	13.5%	24.2%	36.5%	19.6%	28.0%
GCC	0.4%	24.9%	8.1%	19.7%	17.3%
Turkey	19.8%	2.8%	3.3%	3.7%	9.1%
Saudi Arabia	0.0%	21.0%	4.8%	12.0%	11.9%
Mashreq	19.2%	8.7%	50.7%	14.2%	18.8%
Iraq	0.0%	0.1%	0.0%	3.6%	1.6%
Jordan	5.0%	0.0%	0.8%	1.3%	2.2%
Lebanon	0.6%	0.8%	0.0%	3.9%	2.1%
Syria	30.5%	2.7%	12.1%	0.0%	12.8%
CIS	1.5%	4.9%	3.1%	10.0%	6.9%
Russia	0.4%	2.3%	1.7%	4.8%	3.2%
Ukraine	0.9%	2.4%	1.3%	4.8%	3.4%
Sub total	72.6%	86.1%	71.7%	83.4%	98.5%
Other	27.4%	13.9%	28.3%	16.6%	1.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: IMF DOTS

If these are excluded the EU reduces to about 13% of exports. Also notable are the high Mashreq shares of Syria's exports and the low Mashreq share of Turkey's exports. The former is in part attributable to the low share of Syria's exports to the US while the latter is attributable to the large EU and Central Asia share of Turkey's exports.

The pattern of imports to Mashreq countries (Tab le 20) is rather different. Although the share of imports coming from the EU is similar (28%) to the share of exports going to the EU (25%), the Mashreq countries have a much higher share of imports from the GCC countries (17%) than they do exports to the GCC (7%). Turkey also has a much higher share of imports to the Mashreq countries (9%) than it does exports from them (2%). The import share from Turkey is mainly attributable to Iraq imports (20%), while the imports from the GCC are mostly to Jordan (25%) and Syria (20%). Syria has a more dispersed source of imports than the other Mashreq countries, with no country providing more than 20% of the total and with Russia and the Ukraine each providing almost 5% of the total.

Impacts of recommendations on volumes and patterns of trade

Implementation of the proposals included in this study would change the pattern of trade between the Mashreq countries and between them and the rest of the world. The projections of future trade shares shown in the following tables are only indicative and are based on subjective assessments of what might happen. They relate to non-petroleum based trade only. A more analytical projection will be made for the final version of this report, when the proposals have been refined to take account of comments received.

Intra-Mashreq non-oil trade is projected to increase at a constant annual rate until it reaches 90% of the current rate of the of the ASEAN countries (that is 90% of 24.7%, or about 22%). Exports will retain a higher share than imports as the Mashreq dependence on other regions for basic imports falls. The share of intra-Mashreq trade between the Mashreq countries was assumed to equalize at the same rate as each countries total trade as a share of GDP moves towards the comparator for similar income non-oil states.

Table 21: Projected Destinations of Mashreq exports, 2025 (% by value)

	Iraq	Jordan	Lebanon	Syria	West Bank	Share of Mashreq total
EU	7%	10%	12%	9%	0%	9%
GCC	1%	7%	2%	3%	1%	4%
Turkey	5%	6%	4%	10%	0%	6%
Saudi Arabia	5%	5%	6%	8%	1%	6%
Mashreq	**19%**	**33%**	**36%**	**34%**	**21%**	**31%**
Iraq	0%	14%	5%	12%	1%	9%
Jordan	6%	0%	6%	12%	10%	6%
Lebanon	5%	7%	0%	10%	5%	6%
Syria	8%	12%	25%	0%	5%	10%
CIS	0%	0%	1%	1%	0%	0%
Russia	0%	0%	0%	0%	0%	0%
Ukraine	2%	0%	0%	0%	0%	0%
Sub total	58%	94%	97%	99%	44%	87%
Other	42%	6%	3%	1%	56%	13%
Total	100%	100%	100%	100%	100%	100%

Source: Authors projections

With the above assumptions and the projected increases in GDP and total trade shares of GDP, intra-Mashreq exports are projected to reach about 31% of total Mashreq exports, the EU share is expected to

fall to about 9% of the total while the GCC and Turkey shares are expected to increase to 4% and 6% respectively.

Iraq is projected to have to have the largest increase in intra-Mashreq trade share (it is currently zero other than a low 2.6% to Syria) to 9% of its total. Jordan is also expected to have a large increase in its intra-Mashreq exports from its current less than 20% of its total exports to more than 33%, as its dependence on exports to the US reduces over time and its good trade facilitation arrangements with its neighbors begin to be reflected in increased trade flows. Lebanon is also expected to have an increased intra-Mashreq share of exports particularly to Iraq and Jordan. The only intra-Mashreq trade flow share that is projected to reduce significantly is that of exports from Syria to Iraq, which currently account for 30% of Syria's exports. West Bank and Gaza are expected to slowly integrate its trade with other Mashreq countries, particularly with Jordan, but its dependence on trade with Israel is expected to continue until an overall peace agreement is reached in the region.

ANNEX 4 - LOGISTICS PERFORMANCE OF MASHREQ COUNTRIES[48]

Two general indices of the logistics performance of countries are available. Each has slightly different objectives, they have similar but rather different methods of collecting and interpreting data, so it is not surprising that they lead to slightly different if generally compatible results.

Logistics Performance Index

The index most directly related to logistics performance is the Logistics Performance Index.[49] The LPI average for the three Mashreq countries that are included (Lebanon, Jordan and Syria) is just above the regional average with a score of 2.5 out of 5.0, compared with an average score for the region of 2.4. However when the components of the overall LPI are considered, and the three countries considered separately, some significant differences emerge.

Jordan scores higher than the regional average, higher than the other two counties, on the overall LPI and on each of the component scales. This indicates that Jordan has a better logistics performance than its neighbors, and is on a par with Argentina (3.0), Slovakia and Vietnam (2.9) and Brazil (2.8). Lebanon (2.4) has the same average score as the regional average, and similar scores on each of the components. Syria in contrast has far to go to improve its score (2.1), being below the region on the average LPI and on every one of the components. Its overall score puts it on a par with Gabon and Kazakhstan (each with slightly above 2.1) and Mongolia and Tanzania (each with slightly less than 2.1).

Table 22: LPI Scores

	Jordan	Lebanon	Syria	Mashr	MENA
Overall LPI	2.9	2.4	2.1	2.5	2.4
Customs	2.6	2.2	2.2	2.3	2.2
Infrastructure	2.6	2.1	1.9	2.2	2.3
International shipments	3.1	2.5	2.0	2.5	2.4
Logistics competence	3.0	2.4	1.8	2.4	2.3
Tracking and tracing	2.9	2.3	2.0	2.4	2.4
Timeliness	3.2	2.7	2.7	2.8	2.9

Source: http://info.worldbank.org/etools/tradesurvey/mode1b.asp

[48] Results of a more recent Logistics Performance Index have not been quoted as there are some doubts about its results for the Mashreq countries.

[49] *http://info.worldbank.org/etools/tradesurvey/mode1b.asp*

Doing Business

The second index of logistics performance comes from the surveys for the Trading across Borders component of the *Doing Business* indicators. Since the Doing Business surveys have a much broader objective than the Logistics Performance Index, their measures of logistics performance are more limited. The Doing Business surveys are aimed at measuring the impact of business regulations and property rights on ease of doing business in each country. The Cross Border trade component looks at all the procedures involved in exporting and importing a standardized cargo of goods, from the making of a contractual agreement to the final delivery of the goods. The measures produced relate only to the number of:

- documents to be processed
- the total time taken to process orders
- the total cost of compliance with the original order, although the data is provided separately for imports and exports.

The Cross Border Indicators show that the Mashreq countries on average (this time including West Bank and Gaza) have a performance similar to the MENA average. They also indicate that Jordan does not have the significantly better performance than the other Mashreq countries as indicated by the LPI. In terms of numbers of documents required, Lebanon performs best for exports while West Bank and Gaza performs best for exports, while in terms of times, Syria performs best for both imports and exports. In terms of the cost of transporting a container, Jordan has the least cost for exports but Lebanon has the least cost for imports.

The Mashreq averages are close to the MENA averages for the numbers of documents required, about 10% less costly for exports but more costly for imports, and about the same as the average for export times, but about 10% worse for import times.

Table 23: Trading across borders

Region/Country	No. of Export Docs.	Time to export (days)	Cost to export U$ per TEU	No. of Import Docs.	Time to import days	Cost to import US$ per TEU
Middle East & N Africa	7	23	1,024	8	27	1,205
Jordan	7	19	730	7	22	1,290
Lebanon	5	27	872	7	38	1,073
Syria	8	15	1,190	9	21	1,625
West Bank and Gaza	6	25	835	6	40	1,225
Iraq	10	102	3,900	10	101	3,900
Mashreq average	7	22	907	7	30	1,303

Source: http://www.doingbusiness.org/exploretopics/tradingacrossborders/

Other indices have been prepared by World Economic Forum (Global Competitiveness and Global Enabling Trade Index) and the UNCTAD (Shipping Connectivity Index). The combination of these indices as shown in the table below indicate the Jordan is slightly ahead of its neighbors in terms of trade facilitation but remains far behind Turkey, its nearest trading partner outside of Mashreq. While Lebanon has a significant advantage in shipping connectivity or other measures where the performance of its port and relatively short internal movements given it an advantage. However, problems with border administration and transport reduce its competitiveness (although no rankings were available for these

categories). Not surprisingly, Iraq ranks lowest and in many cases does not have a score because of the difficult operating conditions in the country.

Table 24: Country Rankings for Various Trade Facilitation Indices

	Jordan	**Syria**	**Lebanon**	**Iraq**	**Turkey**
Global Competitivness[1]	48 (49)	78 (80)			63 (53)
Doing Business[2]	102	237	99	152	59
Customs[3]	54	108	107		33
Infrastructure[3]	52	131	102		39
Logistics Services[3]	41	145	93		30
Domestic Logistics Costs[3]	78	84	11		112
Timeliness[3]	68	118	115		52
International Shipments[3]	78	84	11		41
Liner Connectivity[4]	59	70	34	162	23
Market Access[5]	95	117			8
Border Admin[5]	36	98			47
Transport & Comm[5]	51	94			44
Business Environement[5]	19	71			50

[1] WEF - sample size 134
[2] IBRD – sample size 181
[3] LPI, IBRD.-.sample size 150
[4] UNCTAD - sample size 163
[5] Enabling Trade, WEF - sample size 118