

the opening towards the world market

Tunisia has signed in late June 1995, and following several months of negotiation with the European Union, a free-trade agreement (FTZ).

What does this mean and what kind of impact is this move likely to have on the Tunisian economy ?

The present presentation makes reuse of the main conclusions drawn up from different studies conducted by the consulting firm COMETE Engineering that I am in charge of directing.

In this presentation, I will undertake, first, to remind the context and the risks of such an agreement, then to measure its impact on tunisia economy and finally to comment on its chances and conditions that could ensure the success of its implementation.

1.1 OVERVIEW OF THE GENERAL CONTEXT

Tunisia has been committed since 1986-87, in a liberalization and structural adjustment program aiming at laying down the market principles, the freedom of internal and foreign trade, to enhance the private sector and to help accelerate the privatization process of the public enterprises.

Hence, the intent to progressively comply with the conditions of the world economy has been considered as an irreversible choice. From this position, the opting for an establishment of a FTZ with the cooperation of the E.U (first business and economic partner) could be rightly considered as the means leading to a deeper rooting of the Tunisian economy within the world economic system.

The anchorage within a more developed economic context, the emergence of confrontation and putative effects stemming from synergy and emulation, are all to be considered , in the medium term, as tools to provide upward momentum :

Interpreted in an habilitation programme and a more efficient economic performance

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Likewise, the setting of a FTZ would be considered as yet another opportunity to ensure growth, coming to impede the erosion of the preferential advantages couched in the 1976 accord, and to counterbalance the consequences of the European assistance diversion towards the Eastern European countries as well as other Mediterranean competitors such as (Turkey, Israel, Cyprus, Malta).

This FTZ, however, comes to speed up, in a considerable manner, the liberalization process that had been triggered but without proffering the subsequent setting of the appropriate means leading to the proper management of this sudden and important shift in the main parameters of Tunisian economy.

The success of the FTZ is conditional upon one key factor the genuine political willingness of the EU to help Tunisia take up the gauntlet by accepting to sign the bilateral accord over free trade with the EU. Tunisia has to undergo the costs (fiscal losses, lay-off). As a result, and without the procurement of significant direct foreign investments, this FTZ would end up having some obvious backlashes on the Tunisian economy.

At the EU level, the FTZ lends itself as a main component yielding a political and economic anchorage of Tunisia within the Community; the same anchorage acquiring some strategic dimensions well in line with the enhancement of prosperity and stability all around the Mediterranean basin.

One has yet to reiterate that the commitment of Tunisia in the project of the FTZ with the EU has never been an optional one.

Moreover it should be considered as sine qua non if Tunisia wanted to enjoy free access to the EEC outlets.

For the marketing of the industrial products, the quasi unilateral accords which have defined until now the Tunisian-European relations could not last for ever either at the level of international accords, signed ever since by Tunisia, or at the economic and business level, the industrial Tunisia of today is not the same one it used to be in 1976

At the world level, the advent of a new trade order characterised by the recent establishment of the World Trade Organisation (WTO) would allow neither Tunisia nor the European Union to keep indefinitely the state of their cooperation accords as it was.

The preferential terms, the quota systems, the safeguard measures and the various conditions dictating the handling of the markets would all be incommensurate with the free-trade directives characterizing the international business, the same directives are shared by the two partners, signitaries and attendants, of the GATT accords

1.2 THE RISKS OF THE FTZ

The FTZ represents the commercial side of the partnership accord signed between Tunisia and the EU

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The same accord comes to substitute for the one signed in 1976 as well as to the additional protocols expiring in 1995.

This FTZ comprises at least four specific characteristics.

We are talking about a FTZ between :

- One country, on the one hand, and a group of countries, on the other;
- Economies with unequal levels of development;
- Economies with unequal integration level;
- Economies with unequal mutual protection level.

Because of these specificities, the FTZ between Tunisia and the EU, looms as an unusual pattern pertaining to the creation of a given FTZ where two or several countries providing similar development and protection levels reach an agreement whereby they accept to set up the procedures leading to the dismantling of the protection measures underlying their own commercial transactions.

The setting of this FTZ is therefore characterized by a conspicuous asymmetry . Whereas the EU (except for some agricultural produce and some other textile goods) has already opened its markets to receive the Tunisian goods, Tunisia has a growing industry that it has to protect. This asymmetry looks, therefore, as follows : Tunisia is called upon to start a unilateral dismantling of its overall protection apparatus (over 70% of the Tunisian imports come from the EU), without obtaining any conspicuous reward in return for that.

Furthermore, and in spite of being the smallest and the least advanced state, Tunisia is also requested to resort to a “unilateral dismantling” This new datum is of paramount importance for it introduces a new form of “staggering” to affect implementation of their partnership agreement.

The setting of free trade accords cannot be detached from the concept of redefining financial cooperation indeed, if the adjustment cost for the FTZ is obvious, the potential profits look as if in safe custody in the longer terms, quite likely to occur but contingent upon the assistance deriving from foreign investments, and that are likely to help make up for the losses in fiscal revenues as well as the capability of the tunisian economy to instal an habilitation scheme for a more productive system.

Therefore, it would be obvious to introduce an integrated vision combining both the commercial and the financial sides, tariff concessions and financial compensations, financial cooperation and industrial restructuring. These are, here, the genuine risks of the accords.

On the other hand, and within the framework of a strategic vision of the Tunisian-European relations, the accord over free trade should be placed within the framework of a concerted common strategy leading to genuine economic convergence. The same strategy of the minimal genuine convergence (taking the case of the least developed European countries as a reference) is subject to some interest, it will constitute a significant turning point helping to instaure a new approach in the European-Tunisian relations.

The impact of the FTZ on the Tunisian economy could be conceived of in a synthetic manner and through three different groups of parameters :

- The commercial exchanges ;
- The activity and the main macroeconomic aggregates ;
- And finally the state budget.

2.1 EFFECTS ON THE COMMERCIAL EXCHANGES

The establishment of a FTZ between Tunisia and the EU means a virtually unilateral dismantling of the Tunisian system of protection vis-a-vis the European products and without a corresponding move in return from the EU since almost all the products manufactured in Tunisia are already being freely marketed in Europe.

For Tunisia, the positive commercial consequences which might be obtained following the creation of a FTZ in the field of manufactured products could only be indirect ones.

Also, they should derive from the improvement of competitiveness rate coupled with the reduction in EU commodity prices and, perhaps, an adjustment aiming at a better productivity to be generated by the protection of the national economy.

As regards the suspension of all forms of customs protection imposed on the European goods, this would lead to an increase in the bulk of European exports towards Tunisia. This increase is evaluated to at least a 2-point growth-rate in favour of the EU concerning the Tunisian import-export coverage ratios.

On the basis of the 1990 data, this diversion aspect would lead to a European increase in the bulk of its foreign exchanges with Tunisia from 73 to 75 %. The main part (90 % approximately) of the additional turnover in foreign transactions due to the dismantling process would be directed towards the EU.

2.2 EFFECTS ON THE ACTIVITY AND MACROECONOMIC AGGREGATES

An accurate evaluation of the quantitative effects linked to the creation of a free-trade zone cannot be detached from the macroeconomic strategy accompanying the implementation of the customs dismantling. Here, indeed, the impact lends itself as being extremely controversial, according to the hypothesis to be withheld, and will depend, up to a large extent, on the macro-economic policy underway by the public authorities.

2.2.1 A PASSIVE MACRO-ECONOMIC POLICY

Under the hypothesis supposing implicitly the setting by the public authorities of an accompanying macro-economic recessive policy (decrease in public expenditures) :

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- The effect on the global economic activity turns out to be quite a global stagnation to be contrasted with a differentiated sectorial growth reflecting the need to adopt a huge industrial restructuring process ;
- The impact on employment is constrained to less than 3 % growth by the end of the dismantling era, in other words a dim outlook of the unemployment crisis bearing in mind the additional demands imposed by the job market ;
- The effect on the public treasury will be interpreted in a public-receipts decrease of about 13 % ;
- The impact on foreign trade is kept under control through the devaluation of the dinar via-à-vis the European currencies (the shift solely due to the setting of a FTZ amounting about 9 %).

The establishment of a FTZ with European Union would have a macro-economic effect to be as much weak if the accompanying policy consisted in seeking an adjustment through the exchange rate (the simulation consisting in maintaining public expenditures at a constant level and to suppose that the overall adjustment phenomenon is carried out through the exchange rate).

2.2.2 AN ACTIVE MACRO-ECONOMIC POLICY

Two hypotheses have been analysed as to the adoption of an accompanying macroeconomic policy to keep under control the potential effects of the FTZ.

- Compensation of the fiscal losses due to the customs dismantling by levying higher indirect taxes ;
- An adjustment through a growth effect imparted by a substantial growth in the bulk of foreign investments.

The increase of indirect taxation (VAT) while making up for the decrease in customs receipts, would generate a backlash effect which is likely to have a serious impact on economic growth : price rise, leading subsequently to a fall in investment rates and internal demands, loss of activities and jobs especially concerning the locally oriented market industries.

The macro-economic effect could be reinversed if the adjustment was carried out through the receiving direct foreign investment while maintaining the same options as to the monetary and budget policies underway.

In an extreme case, which is obviously totally unrealistic, and where the overall adjustment scheme could be entirely performed through hosting Direct Foreign Investments (and therefore at fixed exchange rates), the outcome would be an over threefold increase of the GDP during the whole period, corresponding to a combined growth of around 10 % per annum throughout the 12 years of the FTZ implementation.

It is worth noting that the setting of the FTZ would engender no objective element that is likely to alter the movement of foreign investments towards the Tunisian economy.

Likewise, the comparative advantages offered by Tunisia to the foreign investors will not be affected by the creation of the FTZ.

Similarly, only the subjective elements linked to “the announcement effect” could trigger, at a given time, the flux foreign investments towards Tunisia.

Previous experiences, have shown (the case of Mexico within the NAFTA framework) that this announcement effect does exist.

On the calculated hypothesis of any extra capital influx of one billion TD per year, the results obtained look as follows :

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- An extra GDP growth rate of about 14 % in return ;
- An improvement of the job-market situation by about 12 % ;
- A slight increase in the indirect fiscal receipts (+ 3,2%) : the fall in customs duties would be compensated by the extra cash flows in VAT linked to additional growth (without having to resort to raising VAT rates).

In conclusion, the impact of FTZ on GDP and on employment is quite variable (likely to witness a variation ranging between 0 and 300 %) according to the affluence of foreign investments and the EU and according to the performance capabilities of the Tunisian economy to drain and contain a considerable variation of the foreign investment.

2.3 IMPACT ON THE STATE BUDGET

2.3.1 FISCAL JEOPARDY

Customs duties, in 1994, have accounted for a total amount of about 700 million TD. Imports, from the European Union (3500 MT) have provided customs receipts of about 465 MTD (two thirds of overall receipts).

The tariff dismantling vis-à-vis the importing of industrial products from the EU would, therefore, lead to the dropping of an annual income of about 450 MTD accounting for 62,4 % of the total customs income; and 14,1 % of the overall fiscal income. A similar drop in public expenditures would simply be impossible to realize !

The first dismantling phase, over a 5-year period, would be causing an annual customs deficit of 177 MTD.

At the end of the 12-year period, following the setting of the FTZ, the Tunisian state would be dropping a total customs amount of over 3.3 billion TD ; The same amount expressed in the 1993 constant prices and not taking into consideration the increase in the volume of imports.

By way of conclusion, the evaluation of the impact on the Tunisian economy, deriving from the setting of a free-trade zone between Tunisia and the European union, shows the creation of FTZ can only generate a genuinely positive balance for Tunisia if three related conditions are being met :

- **The setting-up of a non-recessive macro-economic policy ;**
- **A competitive reconversion of the Tunisian economy ;**
- **A significant increase in foreign investment ;**

The implementation of these three prerequisites requests a joint willingness from the Tunisian and European authorities to bring the accords from their purely commercial framework out to a new one characterized by co-development and partnership and paired with a twofold solidarity scheme. The former being financial to help minimise over time of the impact, of fiscal and budget losses, and also trigger and back up the efforts made by the foreign private investors. The latter being technological to help pave the way for a more competitive

THE NEW MEDITERRANEAN POLICY OF THE EUROPEAN UNION : CREATING A EURO-MEDITERRANEAN PARTNERSHIP

reconversion of the Tunisian industries and boost its capacity to help it absorb the increasing of direct foreign investments.

The stakes are quite high for Tunisia here. They are much less important for the EU and it has to be quite comprehensive in its deals with Tunisia in order for the latter to see its economic performance increase and be deeply rooted into the world economy system.

The United States with their “Marshall Plan” at the end of the second world war had done so with Europe to help its reconstruction.

The Japanese, in Far-East Asia, have understood that for a long time. It is Japan who has helped the economy of the four dragons emerge : South Korea, Singapour, Hong Kong and Taiwan. It has proceeded by investing directly and in a massive way, and by enhancing the transfer of technology to be locally mastered.

By so doing, Japan has at a first stage, benefited from lower production costs, and at a later stage enriched these neighbouring countries, creating, extra outlets for its own products, and, eventually, using them as export bases to conquer more worldwide markets.

Incidentally it is the same approach that Europe would be invited to apply in Tunisia and more generally in the region.

The European-Tunisian relations should not be perceived as relations of competitiveness but those of mutually trusted complementarity.

Today Tunisia is requested to take up a series of gauntlets in terms of employment and technology transfer.

It is only through the means of direct investments, and considerable ones, that it could keep up with these challenges.

The geographical position of South Western Europe, along with its historical ties, cultural identity and its privileged economic and commercial relations, militates in favour of a more adequate role in this regard.

Financially and technologically Europe is well capable of achieving that.

This is the price to pay, if we want the Mediterranean basin recover its reputation as a haven for peace and prosperity.

It took Tunisia more than thirty years to get rid of its stigma as a former colony and to invite foreign investors without any fear or reticence.

Now it is up to Europe to offer its assistance at a time the fundamentalists are relying elsewhere on a climate of social injustice and economic mismanagement to spread their daunting ideas.