Economic Research Forum

IDRC REASERCH PROGRAMME
2004-2005

THE ECONOMIC AND REGULATORY POLICY IMPLICATIONS OF OVERLAPPING PREFERENTIAL TRADE AGREEMENTS IN THE ARAB COUNTRIES:

THE CASE OF TUNISIA

Research Report Series: No. 0428

Mohamed A. Chemingui
United Nations Economic Commission for Africa (UNECA)

Mohamed A. Marouani
Institut d'Etude du Développement Economique et Social (IEDES)
Université Paris1-Panthéon-Sorbonne

IDRC

This research has been produced with the financial contributions from the International Development Research Center, Canada (IDRC). The content of this publication is the sole responsibility of the authors and can in no way be taken to reflect the views of the IDRC nor ERF.

The production of this publication has benefited from the financial support of IDRC. The content of this publication is the sole responsibility of the authors and can in no way be taken to reflect the views of the IDRC nor ERF.

IDRC REASERCH PROGRAMME
2004-2005

THE ECONOMIC AND REGULATORY POLICY IMPLICATIONS OF OVERLAPPING PREFERENTIAL TRADE AGREEMENTS IN THE ARAB COUNTRIES:

THE CASE OF TUNISIA

Research Report Series: No. 0428

Mohamed A. Chemingui
United Nations Economic Commission for Africa (UNECA)

Mohamed A. Marouani
Institut d'Etude du Développement Economique et Social (IEDES)
Université Paris1-Panthéon-Sorbonne

This research has been produced with the financial contributions from the International Development Research Center, Canada (IDRC). The content of this publication is the sole responsibility of the authors and can in no way be taken to reflect the views of the IDRC nor ERF.

The production of this publication has benefited from the financial support of IDRC. The content of this publication is the sole responsibility of the authors and can in no way be taken to reflect the views of the IDRC nor ERF.

Table of Contents:

1. Introduction 1

2. Overview of Tunisia's trade commitments **2**

2.1. Commitments under the WTO. *4*

2.2. The Euro-Tunisian partnership agreement *5*

2.3. The Agadir declaration. *8*

2.4. The Great Arab Free Trade Agreement (GAFTA). *10*

2.5. The free trade agreement with the EFTA. *11*

2.6. The free trade agreement with Turkey *13*

2.7. Other regional agreements *14*

3. A preliminary assessment of trade reform in Tunisia **17**

3.1. A macro-economic assessment of trade reforms *17*

3.1.1. Trade creation and trade diversion 19

3.1.2. Intra-industry trade 21

3.1.3. Effects on public finance 21

3.1.4. Effects on growth 22

3.2. Ex-post evaluation of trade reforms *24*

3.2.1. Tariffs barriers 26

3.2.2. Non-Tariff Barriers (NTBs) and Technical Barriers to Trade (TBT) 29

3.2.3. FDI and privatization 31

4. Implementation of the Tunisian Commitments in the context of its bilateral and multilateral trade agreements **33**

4.1. Commitments and achievements in terms of trade liberalization *34*

4.1.1. Liberalization of trade in goods 34

4.1.1.1. Under the WTO 34

4.1.1.2. Under the free trade -agreement with the European Union 35

4.1.1.3. Under the other bilateral trade agreements 37

4.1.2. Liberalization of services 37

4.1.2.1. Communication services 37

4.1.2.2. The financial services 39

4.1.2.3. Tourism and travel related sectors 40

4.1.3. Export subsidies and exports restriction 40

4.1.4. Intellectual property right protection 40
4.1.5. Competition policy 41
4.1.6. Trade facilitation 43
4.1.6.1. Standards 43
4.1.6.2. Custom procedures 44
4.1.6.3. The TradeNet information system 47
5. Compliance between the RTAs signed by Tunisia and WTO disciplines 47
5. 1. RTAs and WTO rules *48*
5.2. WTO and inclusion of agricultural products in RTAs *50*
5.3. Some Issues on RTAs conformity with the current WTO rules and the necessity of further clarification under the Doha round *51*
6. Sensitive sectors: The case of textiles and clothing sector 52
7. Conclusion 56
8. References 58

1. Introduction

Over the past three decades Tunisia has witnessed an important economic and social transformation. In fact, it is now in a process of economic reform and liberalization after decades of heavy state control and interventions in the economy. Prudent economic and fiscal planning have resulted in a moderate sustained growth for over a δecade. Historically, Tunisia's economic growth has always depended on oil, phosphates, agriculture, and tourism. The government’s economic policies had a limited success during the early years after independence.

During the 1960s, a drive for collectivization caused unrest, and farm production fell sharply. Higher prices for phosphates, oil and growing revenues stemming from tourism stimulated growth in the 1970s, but an emphasis on protectionism and import substitution led to inefficiencies (Finance & Development, 2001). As a result, an overvalued Tunisian Dinar (TD) aνd a growing foreign debt sparked a foreign exchange crisis in the mid-1980s. In 1986, the government launched a structural adjustment program to liberaλιze prices, reduce tariffs, and reorient Tunisia towards a market economy. In 1990, Tunisia joined the General Agreement on Tariffs and Trade (GATT) and became a member of the World Trade Organization (WTO) on March 1995. In 1996 Tunisia entered into an 'Association Agreement' with the European Union (EU) that will remove tariff and other trade barriers on a very large variety of goods by 2008. In conjunction with the Association Agreement, the EU is assisting the Tunisian government in implementing the upgrading (Mise A Niveau) program to enhance the productivity of Tunisian businesses and prepare the Tunisian economy to face competition in the global marketplace. Nevertheless, the trade liberalization process, has not been confined only to these main events (adhesion to the WTO and the conclusion of the association agreement with the EU). In fact, as a member of the Great Arab Free Trade Area, and the Agadir Agreement, Tunisia is engaging in free trade areas with its neighboring countries. In addition to many bilateral trade agreements with some Arab countries, Tunisia recently signed two additional agreements establishing free trade areas with other non-Arab partners. The first was signed with Turkey and the second with the European Free Trade Association (EFTA) countries. In order to match with this new orientation of its economic policy, Tunisia has initiated a comprehensive reform program aimed at laying the foundations for a diversified and competitive economy by adapting to the new international environment on one hand, and cushioning the expected adjustment costs related to trade liberalization on the other hand. These basic reforms, which aim at eliminating market inefficiencies and reducing state intervention in competitive activities, have affected prices, the degree of competition, taxes and public finances, the investment incentive system, the financial sector as well as the restructuring of public enterprises through the implementation of a major program of privatization and administrative reform. At the same time, special attention has been paid to the upgrading of skills to improve productivity, which is a necessary element for the success of the reform program.

Ten years following the implementation of major trade reforms in Tunisia, and especially in the aftermath of the Uruguay Round Agreements in the context of the WTO and the partnership agreement with the European union, it is timely to undertake a preliminary assessment of the impact of these reforms, the degree of their implementation, the flanking measures taken by the government, and the compliance of the different RTAs signed by Tunisia with WTO rules. A special attention will be given to the more sensitive sector that will be disproportionately affected by both the internal and external trade reforms.

This report is structured in the following way. The second section presents the different trade commitments undertaken by Tunisia. The third section analyses both the effects of trade liberalization implemented in Tunisia since 1995, as well as the effect of trade reforms on the main macro-economic aggregates (growth, public finances, trade…) and the evolution of tariff and non-tariff protection before and after the trade reforms. The fourth section assesses the level of implementation of the different commitments, taken by Tunisia as part of its multi-lateral, bilateral and regional trade agreements. The fifth section deals with the issue of conformity between the different free trade agreements, signed by Tunisia, and the WTO rules, while evoking the drawbacks of the rules of the current multilateral trade system. The sixth section describes and analyses the challenges that these trade agreements have introduced to the textile and clothing sector, in order to show the extent to which the Tunisian economy is called upon to update and reform itself, so as to take up the challenge of free trade. The last section concludes and presents some policy recommendations.

2. Overview of Tunisia's trade commitments

As mentioned in the introduction, Tunisia is currently involved in many regional trade agreements (RTAs), in addition to its commitments under the WTO agreements. Overall, RTAs have grown dramatically in number and importance since the early 1990's. In the last 10 years, almost 200 RTAs have been notified to the WTO. 33 new agreements have been notified in 2004 alone, and 20 more in the first 6 months of 2005.[1] This steady growth of regional trade agreements is not expected to slow down in the near future: taking into account RTAs that are currently under negotiation or not yet ratified, the number of notified RTAs into force is expected to grow from 139 (July 2005) to 300 in 2008.[2] Furthermore, a recent World Bank report[3] estimates that over 40% of the world

[1] A complete list of RTAs notified to the GATT/WTO under GATT Article XXIV, GATS Article V, and the Enabling clause can be found at www.wto.org/english/tratop_e/region_e/region_e.htm.

[2] J. A. Crawford and R. Fiorentino (2005), "The Changing Landscape of Regional Trade Agreements", WTO Discussion Paper, No. 8, WTO, Geneva, p. 3. The figure of 139 agreements is obtained by eliminating double counting of notifications of Economic Integration Agreements under GATS Article V.

[3] World Bank (2005), Global Economic Prospects 2005, World Bank, Washington DC, p. 27.

trade now utilizes preferential trading arrangements of some sort. As the Consultative Board to the WTO Director-General points out in a report on the Future of the WTO, MFN is no longer the rule but almost an exception.[4] Recent “regional” trade agreements are no longer necessarily geographically contiguous. Many are bilateral; and cross regional. They can be between individual countries; one country and a group of countries; or between blocs of countries.[5]

As shown in Figure 1, trade relations between countries — which might be termed either “preferential” or “discriminatory,” depending on one’s perspective — take a variety of forms. All of them contribute to fostering trade relationships, but do so on the basis of different political objectives, with different economic instruments, and in the context of different legal rules and principles. As far as regional trade agreements (RTAs) are concerned, they take three principal forms: free trade agreements (FTAs); customs unions (CUs); and common markets.[6] Figure 1 summarizes the main differences between the 3 forms.

Overall, Tunisia has concluded trade agreements with about 60 countries. Since its last trade policy reform that was implemented in 1994, Tunisia has signed some particularly agreements, including the accession to the WTO membership; the bilateral agreement with the European Union; bilateral and plurilateral agreements with the members of the Arab League; and two agreements with Turkey and the EFTA. All these agreements are classified under free trade agreements (FTAs). In the following part, we describe in details these trade agreements and discuss their importance for the Tunisian economy.

[4] Consultative Board to the Director-General Supachai Panitchpakdi (2004), The Future of the WTO: Addressing Institutional Challenges in the New Millennium (“Sutherland Report”), WTO, Geneva, p. 19.

[5] Because these agreements have outgrown the “regional” definition, some prefer to use the term preferential trade agreements. However, this paper continues to use the term regional trade agreements to avoid confusion with other trade preference schemes or arrangements..

[6] One might identify an “economic union” as another form of RTA, this being a step beyond the common market that entails “harmonization of some economic policies of member countries, particularly macro-economic and regulatory policies” (Safadi and Nicholas [1996], page 17).

Figure 1: Taxonomy of trade relationships

Negative Discrimination
Countries can impose trade restrictions for political reasons. Provisions in WTO law (GATT Article XXI and WTO Article XIII) offer loopholes that permit such discrimination.
Examples include full or partial trade embargoes, other sanctions, and placing political conditions on MFN treatment (e.g., linking MFN to human rights practices).

Non-Discrimination
Apart from a few exceptions, all WTO members extend universal and unconditional most-favored-nation (MFN) treatment (now called "normal trade relations" in U.S. law and policy). Countries outside the WTO typically extend and receive MFN treatment as well, usually on the basis of bilateral trade agreements.

Positive Discrimination
Countries can extend preferential treatment to some partners without extending these benefits to others on an MFN basis. WTO law places disciplines and limits on discrimination. Such positive discrimination is usually provided in addition to, and not instead of, the non-discriminatory treatment of MFN relations.

Reciprocal Preferences/Regional Trade Arrangements
GATT Article XXIV allows countries to establish preferential arrangements, provided that they cover substantially all trade, do not increase the discrimination against other parties, and are notified to the WTO.

Free Trade Area (or Free Trade Agreement)
Members eliminate all tariffs on trade with one another but maintain separate tariffs against third-country imports.
The European Free Trade Assn. and NAFTA are notable FTAs. Countries (e.g., the United States) and regional groups (e.g., EU and EFTA) can have FTAs with others.

Customs Union
Members go beyond the FTA's internal free trade to set a common external tariff for third-country imports.
The EU began as a customs union, and now has such arrangements with other countries (e.g., Turkey). Customs unions are common among developing country RTAs.

Common Market
Members go beyond a customs union's trade provisions to liberalize factor movements (e.g., labor and capital).
The European Union is a common market, as is the United States. Other groups (e.g., the Andean Common Market) are still in the transition from a customs union.

Non-Reciprocal Preferences
A developed country extends preferences to a developing country without requiring tariff concessions in return. Such programs require a waiver of GATT Article I.

Global Preferences
Beneficiary countries of the Generalized System of Preferences enjoy duty-free or reduced-duty access for some of their exports to industrialized countries' markets.
Most OECD countries' GSP programs entered into effect in the early and mid-1970s, and typically apply to most developing countries (with exceptions).

Regional Preferences
Special programs go beyond the GSP in their product coverage, depth of tariff cuts, etc., for certain countries.
Examples include U.S. programs for Caribbean Basin, Andean, and sub-Saharan African countries, and the European Union's agreements with African, Caribbean, Pacific, and Mediterranean countries.

Source: Chemingui, Safadi and Diao (2005)

2.1. Commitments under the WTO

Tunisia joined the General Agreement on Tariffs and Trade (GATT) in 1990 and has been a member of the World Trade Organization (WTO) since March 1995. In the context of the WTO, Tunisia, as is the case with all WTO members, have embraced the results of the Uruguay Round as a single undertaking, thuσ taking on multilateral commitments in goods, services and the protection of intellectual property.

The commitments of Tunisia, emerging from the Uruguay Round, comprise the consolidation of 4005 customs positions in the agricultural and industrial sectors; that is 66 % of the NSH. In the agricultural sector, the commitments taken by Tunisia comprise the consolidation of 1503 customs positions; that is 25 % of the NSH, at rates that vary between 25 and 250 %, and the commitment to reduce these rates to 24 % during 10 years (1995-2004). The commitments of Tunisia also consist of insuring the opening of its tariffs-quotas for the importation of agriculturaλ and food-processing products at lowered customs duty rates. Furthermore, Tunisia has also taken to reduce the level of its domestic support by 13.3 % during 10 years. In the industrial sector, Tunisia took it upon itself to consolidate 2502 customs positions (41.3 % of the NSH) at rates that vary between 17 and 52 % (excepting for the textile products, whose customs duties are at 90 %, and must be lowered to lie at 60 % in 2005). Tunisia is also committed to consolidate 859 customs positions in the textile-clothing sector, except for carpets, with a commitment to reduce rates from 90 % to 60 % over 10 years. In the service sector, Tunisia has presented an offer, incorporating financial services; tourism (hostels and restaurants); land acquisition; control of change; and the exercise of commercial activities. Details of these commitments are provided later in this document. All the same, the commitments taken by Tunisia under the WTO are not limited to those taken within the framework of the GATT agreement; rather other commitments have followed. Thus, in the sector of basic telecommunication, Tunisia has signed the fourth protocol in April 1997. The commitment concerns the privatization/liberalization of certain services (telephone, telex, fax, etc) according to a calendar, established over the period 1999-2003. Tunisia was also bound in February 1999 to improve its initial commitments in the sector of financial services, namely in the banking sector and in terms of foreign investment.

2.2. The Euro-Tunisian partnership agreement

Tunisia is one of the EU most established trading partners in the Mediterranean region. With a total value of ¤13.4 billion in 2003, Tunisia ranks as the EU 30th trade partner. The EU is Tunisia's biggest trade partner. In 2003, it accounted for 79.2% of Tunisia's exports and 73.7% of its imports. The EU has initiated during the Barcelona Conference in 1995 a multifaceted attempt at regional integration between the two shores of the Mediterranean. The aim is to create a Euro-Med area that seeks to promote peace, stability and security. It is within this context that the EU has proposed a new mode of association with 10 Mediterranean countries. The Barcelona Process extends free trade across the Mediterranean region through a network of bilateral agreements between the EU and individual Mediterranean partners. This involves reciprocal liberalization on industrial products, and gradual, reciprocal liberalization in agricultural and fisheries products. Tunisia was the first Mediterranean country to sign an association agreement with the EU, in July 1995. The agreement came into force officially on 1 March 1998. However Tunisia started dismantling tariffs on the products imported from the EU in January 1996. Besides working to foster greater overall stability in the region, the Association Agreement represents a key step in advancing bilaterally towards the eventual goal of establishing a Euro-Mediterranean Free Trade Area between the EU and all its 10 Mediterranean partners.

Regarding the trade provisions, the agreement confirms the existence of free trade in manufactured goods and seeks to reinforce it by initiating a dialogue in a number of related areas. Notably, these include, provisions for the freedom of establishment; free movement of capital; trade facilitation and the approximation of legislation. The Agreement phases a free trade in industrial goods over 12 years. Under the previous trade and cooperation agreements that are in effect since 1976, nearly all of the Tunisia's industrial exports had free access to the EU markets. The main exemption was for some textiles, for which a voluntary export restraint was, however, rarely binding. Under the new agreement, this privileged access will be kept and extended to textiles, while Tunisia will dismantle, over 12 years, all tariff and non-tariff barriers on industrial imports from the EU, subject to a number of safeguard provisions. Quantitative restrictions and tariffs on a large number of items - mainly equipment goods - have been abolished immediately after the Agreement came into force; in regard to other categories of products, tariffs have been phased out over a 12-year period. Regarding tariff reductions, the agreement fixed 4 lists of industrial products, where reductions will be achieved during a specific period of time. The first list includes equipment goods and inputs for which import duties have been removed immediately in the first year of implementation of the agreement (January 1996). Imports of goods corresponding to this list amounted to 12% of the total industrial imports from the European Union in the year 1994. The second list covers essentially raw materials and intermediate goods that are not produced locally, which represented 28% of the total imports of industrial goods from the European Union in 1994. For this list, duties have been removed progressively over a period of five years starting from the first year of implementation of the agreement. Duties on imports of goods classified under this list were completely removed in December 2000. The third list, which covers goods that competed with domestic production, tariff reduction was planned over the whole period of implementation of the agreement (12 years). This list covered 30% of the total industrial imports from the European Union in 1994. Finally, the fourth list covers industrial products that are deemed highly vulnerable to foreign competition and for which tariff reduction was planned over the last 8 years of implementation of the agreement. This list covered about 29% of the total Tunisian imports of industrial products from the European Union in the year 1994.

Concerning agricultural trade, there has already been a progressive and reciprocal liberalization in areas of mutual interest. In December 2000, the EU and Tunisia agreed on measures to further liberalize trade in agricultural products starting from January 2001 with the conclusion of a transitory agreement on trade in agricultural products. As an illustration, Tunisia has acquired a better access to the EU market for olive oil (increase in the annual quota and duties set to zero), cut flowers, tomato concentrate, new potatoes and oranges for which an increase in the tariff rate quota has been agreed. The EU has obtained improved access for vegetable oils and wheat under preferential quotas and tariffs. Further liberalization of agricultural trade is being negotiated in the context of the on-going Doha Development Agenda of the WTO.

The Agreement also covers the right of establishment and the liberalization of services between Tunisia and the EU. Public acquisition contracts will also have to be implemented as well as measures affording suitable and effective protection of intellectual, industrial and commercial property rights.

The Agreement goes well beyond the existing framework of cooperation by calling for a comprehensive harmonization of the regulatory framework, with a view of phasing out any practices that distort trade between the partners, such as monopolies, government subsidies, or privileges granted to public enterprises. Economic and financial cooperation is to be strengthened, particularly to support industries that will face difficulties in adjusting to the envisaged trade liberalization, to promote intra-Maghreb regional integration, and to enhance environmental protection. The Agreement calls for the harmonization of norms and standards (in transport, telecommunications, etc.), and for regulations and rules concerning accounting and financial services, statistics, and customs. Financial support for Tunisia's adjustment and development efforts is also envisaged.

The agreement introduces also a financial support to Tunisia and a follow-up mechanism. Regarding financial co-operation with Tunisia, it takes place through the MEDA program. Between 1996 and 1999, under MEDA I, the co-operation focused on economic transition and reform and socio-economic balance, with mainly two structural adjustment facilities and several technical assistance programs to strengthen the private sector development. The funds committed in this period amounted to around ¤ 428 million. In this context, the European Union is one of the main donors for the upgrading program (Mise a Niveau) implemented by Tunisia to enhance the productivity of domestic firms. MEDA II, which covers the period 2000-2006, is supporting the implementation of the association agreement in order to achieve the following objectives:

- Follow-up and implementation of the tariff dismantling envisaged in the Association Agreement for industrial products.
- Negotiations for the liberalization of trade in services.
- Trade related technical assistance.
- Rules of origin and the accession of Tunisia to the pan-European system of cumulation.

The Agreement is overseen by regular ministerial (Association Council) and senior officials (Association Committee) level meetings. In the trade domain, a further sub-committee has been set up covering issues in industry, trade and services in order to explore additional ways of enhancing cooperation.

2.3. The Agadir declaration

The Agadir Agreement offers added momentum towards the achievement of a Euro-Mediterranean free trade area by 2010. The Agadir process, an important sub-regional initiative, was initiated by Morocco, Tunisia, Egypt and Jordan and was signed on February 2004. Its stated goal is a free trade area among these four countries who, at that time were the most advanced parties in the Euro-Med Association process. In addition to the four initial member countries, the initiative is open to other Arab countries wishing to join in. The signed agreement will create an integrated market of more than 100 million people in the four countries. The Agadir Agreement calls on the parties to remove substantially all tariffs on trade between them by 1 January 2006, and to intensify economic cooperation notably in the field of harmonizing their legislation with regard to standards and customs procedures.

The Agadir agreement is set to come into force in January 2005 but by April 2006, only Egypt and Tunisia have ratified the agreement. In February 2006, Morocco has expressed its approval of the agreement, which will be ratified shortly. Prior to the Agadir declaration, the four signatories - Egypt, Jordan, Morocco and Tunisia - had signed a number of bilateral agreements aimed at boosting trade between them. However, their commercial ties still need to be further strengthened. Trade between these countries represents a small share of their total trade. Furthermore, trade volume between these countries still at a very low level when compared to their trade patterns with the EU, which is the first and most important commercial partner for all four countries. For Tunisia, bilateral trade with the other members of the Agadir process remains very small. In 2004, trade with the Agadir partners represented 0.9% of the total Tunisian exports and 1.04% of its imports (cf. Table 2).

One of the main reasons behind the establishment of the Arab Mediterranean Free Trade Area (Agadir Process) is that it will allow its members to benefit from the regional cumulation of rules of origin in their bilateral agreements with the EU. European regulations regarding the origin of goods, which will be applied to trade between each of these countries and the EU, will allow them to manufacture products jointly before exporting them duty-free to the EU. The agreement should also serve to level the playing field between the North and the South of the Mediterranean in the market of high-quality products. Without duties or other measures preventing the free flow of goods and eventually services, these Arab countries will be able to use their competitive advantage in many areas, for instance cheaper labor. As for the implications of this agreement, it is too early to comment on it, as the agreement is not yet implemented. Tunisian officials

Table 2: Trade in Goods between Tunisia and Agadir countries (Millions TD)

	2001	2002	2003	2004
Agricultural and Food Processing Goods				
Exports	21.743	19.971	16.056	22.666
Share in Total Exports (in %)	2.77	2.87	2.14	1.66
Imports	49.314	48.61	43.062	48.551
Share in Total Imports (in %)	4.17	3.41	3.41	3.17
Textiles, Clothing, and Leather Products				
Exports	5.714	3.388	4.500	3.052
Share in Total Exports (in %)	0.12	0.07	0.09	0.06
Imports	14.375	8.958	7.47	11.07
Share in Total Imports (in %)	0.43	0.27	0.22	0.33
Mechanical and Electrical Industry Products				
Exports	19.515	23.966	26.991	32.769
Share in Total Exports (in %)	1.10	1.27	1.26	1.26
Imports	23.621	18.586	27.359	41.695
Share in Total Imports (in %)	0.43	0.36	0.51	0.64
Other Industrial Products				
Exports	64.742	67.32	68.463	49.482
Share in Total Exports (in %)	2.75	2.77	2.67	1.66
Imports	92.809	81.966	53.086	63.536
Share in Total Imports (in %)	2.49	2.24	1.34	1.42
Total of Trade				
Exports	111.714	114.645	116.01	107.969
Share in Total Exports (in %)	1.17	1.18	1.12	0.90
Imports	180.119	158.12	130.977	164.852
Share in Total Imports (in %)	1.31	1.17	0.93	1.04

Source: authors' calculations based on data from INS.

argue that Tunisia has already started the implementation of the agreement indirectly through the progressive removal of duties on selected goods imported from theses countries according to the bilateral trade agreements signed with all these countries individually. The importance of this agreement can be explained by the nature of the Euro-Med Partnership. In fact, the Euro-Med partnership has different bilateral rules of origin (ROOs) between the EU on the one hand and each Mediterranean partner on the other and these do not allow at present any cumulation. In this context, the Agadir agreement came to remedy this critical gap that will allow countries to enhance their own integration and it will also support the GAFTA process.

2.4. The Great Arab Free Trade Agreement (GAFTA)

The executive program of the Convention on the Facilitation and Development of Inter-Arab Trade entered into force in January 1998; it is currently being applied by 17 of the 22 members of the League of Arab States. The GAFTA is a new Arab League initiative that aims to revive previously unsuccessful attempts at regional integration. According to this agreement, all Arab products moving among the members will be afforded the status of national goods in accordance with the principle of gradual liberalization through an annual reduction of 10% of customs duties and taxes with equivalent effects. Initially, goods are scheduled to be traded duty-free among the members by 2007 but the Economic and Social Council decided at its 69th meeting in Cairo to accelerate the establishment of GAFTA, setting 2005 instead of 2007 as the deadline for its launch. In 2004, it was planned that all the Arab countries, which had joined GAFTA, would reduce customs on their bilateral trade by 80%, and completely eliminates all tariffs by 2005. The agreement stipulates that members are allowed to draw up a list of exceptions from tariff reductions for industrial products during the first years of the agreement (i.e. a negative list approach). The exceptions are intended to enable domestic economies to restructure and improve their competitiveness prior to being subjected to full competition from other GAFTA countries' imports (ERF, 2000). By 1 January 2005, 15 countries had completed the accelerated removal of their tariff barriers, namely: Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Syria, Tunisia, and the United Arab Emirates. For the two other countries involved in GAFTA, Sudan and Yemen, given that they are considered as Least Developing Countries (LDCs), they have been allowed more time. Thus, Tunisia assumes that it already had granted duty-free access to all products originating from these 17 countries.

Trade provisions for agricultural trade under this agreement offer members the opportunity to suspend tariff reductions on some products during the peak harvest seasons. In this regard, each member is allowed to submit a list of ten products for suspension, with a total exemption for all the products of 45 months. While the agreement calls for a schedule to reduce non-tariff barriers, this issue is not tackled yet. Furthermore and while the agreement calls for the application of international rules regarding subsidies, countervailing measures, safeguards, and anti-dumping measures; yet it does not explicitly refer to the WTO agreements given that many Arab countries which are members of the GAFTA are not yet members of the WTO (such as Syria). The other important component of the GAFTA agreement is related to the rules of origin to take advantage from duty-free treatment. While the executive program of the Greater Arab Free Trade Area contains a protocol on rules of origin which, however, it appears to have not yet entered into force. According to ERF (2000), the GAFTA value added requirements is set at 40%, and there are two methods for calculating origin[7] but until now, there is still not a detailed preferential rule of origin mechanism for GAFTA-made products that can be used for full cumulation of origin among the GAFTA countries.

Many problems linked with the GAFTA are still threatening its effectiveness. This includes particularly a list of exceptions for tariff removal that is too large and rules of origin for goods that are too loosely defined. Taxes and charges with similar effects as tariffs remain largely untouched and non-tariff barriers (which can be administrative, quantitative and financial) need to be identified and dealt with appropriately, according to ESCWA. Finally there is a discrepancy in GAFTA (which is ultimately designed to be compliant with WTO rules) given that some members of GAFTA are not yet members of WTO and are therefore not currently subject to the same rules. So far, GAFTA has been limited to a regional liberalization of merchandise trade, but the absence of provisions for free movement of services and the right of establishment in member countries of GAFTA will largely reduce the benefits of the agreement. In Tunisia, the agreement is only implemented for goods that are not included in the negative list. Import operations are restricted through a certificate of origin, which is so difficult to obtain in many Arab countries. Tunisian officials said that Tunisia started offering duty free for goods originating from Arab countries members of GAFTA that have already opened their markets to Tunisian products. In order to facilitate trade among member countries faster than what were decided in the GAFTA agreement, many member countries started bilateral negotiations to define ways and rules for boosting free trade among themselves. Certificates of origin represented the central element of these talks for trade facilitation.

2.5. The free trade agreement with the EFTA

The Member States of the European Free Trade Association (EFTA) – Iceland, Lichtenstein, Norway and Switzerland – signed a free trade agreement with Tunisia in Geneva on 17 December 2004. Negotiations on the EFTA-Tunisia free trade agreement were launched in Tunis in October 1996 and were concluded in 2004 after six rounds of negotiations. This agreement is the seventh of its kind that the EFTA States have concluded with a Mediterranean partner country participating in the Barcelona process. EFTA States have already established preferential trade relations with the 25 member of the EU. The EFTA-Tunisia free trade agreement covers trade in industrial goods as well as processed agricultural products. The agreement also contains substantial provisions on intellectual property, competition and dispute settlement and covers certain aspects of services, investment and government procurement. Moreover, the EFTA states and Tunisia concluded bilateral agreements on trade in agricultural products.

[7] The first is based on the local value added approach. The second is the net cost approach, which subtracts specified imported expenses from the transaction price to determine the base for calculating the ratio of foreign to domestic content.

The agreement covers trade of both industrial and processed agricultural products. It takes into consideration the different levels of economic development of the EFTA countries on the one hand, and Tunisia on the other by providing for asymmetric tariff dismantling. EFTA countries will eliminate duties and other restrictions for covered products upon entry into force of the Agreement, while Tunisia will gradually abolish its duties during a transition period. The agreement contains rules of origin according to the model of the Euro-Med cumulation system. Trade in basic agricultural products is covered by arrangements concluded bilaterally between each EFTA state and Tunisia.

The agreement provides unrestricted payments for current transactions and ensures that capital relating to direct investments can move freely, including the repatriation and liquidation of benefits. In addition, the partners have agreed to grant their bilateral investments full protection and security as well as fair and equitable treatment in accordance with international law. The partners aim at achieving gradual liberalization and the mutual opening of their markets for trade in services in accordance with the provisions of the GATS. Moreover, the agreement sets the objective of reciprocal and gradual liberalization of public procurement markets. With regard to both areas, EFTA states and Tunisia will enter into consultations if a Party grants additional benefits to third parties. The agreement contains the usual trade disciplines, including rules concerning anti-competitive practices. Furthermore, EFTA states commit themselves to engage in economic co-operation and to provide technical assistance to Tunisia in order to facilitate the implementation of the agreement. Such co-operation and assistance include the enhancement of trading and investment opportunities as well as a support to Tunisia's own efforts to achieve sustainable economic and social development. They will focus on sectors that face particular challenges and on those that could generate growth and employment. The agreement provides a high level of protection of intellectual property, covering areas such as patents, copyright, undisclosed information, industrial designs and geographical indications. Regarding dispute settlement, the agreement includes rules and procedures for the settlement of disputes arising from the agreement between one or several EFTA states and Tunisia, including consultations and arbitrations.

While the trade volume between Tunisia and EFTA countries is very small, the signing of this agreement represents a necessary step towards the cumulation of origin with the European Union (cf. Table 3).

Table 3: Trade in goods between Tunisia and EFTA countries before implementing the FTA (Millions TD)

	2001	2002	2003	2004
Agricultural and Food Processing Goods				
Exports	15.861	15.509	17.94	23.48
Share in Total Exports (in %)	2.02	2.23	2.39	1.72
Imports	24.372	37.285	39.342	49.479
Share in Total Imports (in %)	2.06	2.62	3.12	3.23
Textiles, Clothing, and Leather Products				
Exports	15.262	8.531	9.62	10.478
Share in Total Exports (in %)	0.33	0.18	0.2	0.2
Imports	12.511	18.874	17.975	22.453
Share in Total Imports (in %)	0.37	0.57	0.53	0.67
Mechanical and Electrical Industry Products				
Exports	7.566	6.212	6.314	10.256
Share in Total Exports (in %)	0.43	0.33	0.29	0.39
Imports	60.485	58.73	54.158	52.509
Share in Total Imports (in %)	1.11	1.15	1.0	0.8
Other Industrial Products				
Exports	19.733	99.641	188.557	10.366
Share in Total Exports (in %)	0.84	4.1	7.36	0.35
Imports	56.942	82.958	59.069	58.072
Share in Total Imports (in %)	1.53	2.27	1.49	1.3
Total of Trade				
Exports	58.422	129.893	222.431	54.58
Share in Total Exports (in %)	0.61	1.33	2.15	0.45
Imports	154.31	197.847	170.544	182.513
Share in Total Imports (in %)	1.13	1.46	1.21	1.15

Source: authors' calculations based on data from INS.

2.6. The Free Trade Agreement with Turkey

The association agreement establishing a free trade area between Tunisia and Turkey was signed on 25 November 2004. The agreement covers provisions on preferential trade, state monopolies, competition and state aid, intellectual property rights, public procurement and economic and technical cooperation. With this agreement, both Tunisia and Turkey aim at strengthening cooperation, removing trade barriers, including agricultural trade, establishing appropriate conditions for competition and promoting bilateral investments. A free trade area will be created within 9 years following the entry into force of the agreement. For Tunisia, the main motivation behind signing this agreement is to diversify the sources of importing raw materials and intermediate products for its apparel sector in order to enhance the competitiveness of this sector and to reduce the negative effects generated by the abolition of the MFA protocol last January 2005. Thus, Tunisian garment products produced with yarn imported from Turkey (cheaper than European textiles) and exported to the European market will be exempted from duties upon approval from the European Union.

For trade in industrial products, preferences are set out under Protocol I of the agreement. Turkey undertook to abolish all customs duties on industrial products originating from Tunisia as soon as the association agreement took effect. On the other hand, Tunisia will remove tariffs progressively from Lists I, II, and III. The duties for products that are not included in one of these lists will be abolished with the entry into force of the agreement. In this context, the customs duties on Turkish industrial products in List I will be decreased by 12% each year for a period of 6 years; the remaining 16% will be abolished at the seventh year. Concerning List II, duties will be reduced annually by 9% after a two-year grace period. The reduction will be of 13% for the following years. These goods will enjoy duty free access at the end of 9^{th} year. List III is not concerned with elimination. In other terms, list III is the list of excluded products.

The protocol II of the agreement establishes a preferential trade regime that will be applied to agricultural trade. Concessions are exchanged for a given number of agricultural, fishing and processed agricultural products on the basis of tariff quotas. Bilateral trade in agricultural products between the two parties is described in Table A and in Table B attached to the agreement. This agreement entered into force in June 2005. As far as trade flows between Tunisia and Turkey are concerned, they still represent a small share of total Tunisian trade until the end of 2004 (cf. Table 4).

2.7. Other regional agreements

Tunisia signed other bilateral agreements to establish free trade areas, or to offer some preferential access for products originating from some countries. These agreements mainly cover those signed with Egypt, Morocco, Jordan, Kuwait, Mauritania, Libya, Algeria, Palestinian authority, and other Arab countries.

Regarding the agreement on establishing an FTA with Egypt, it was signed in March 1998 and it consists of creating a FTA by the first of January 2008. This agreement entered into force in January 1999 and will be implemented progressively during the years 1999-2007. The scheme of tariffs dismantling includes three lists. For the first list, which comprises two lists of products, of Tunisian and Egyptian origin, the agreement provides full tariff dismantling since the implementation of the agreement. The second list, which comprises the products that are taxed between 0 and 20%, the tariff dismantling will be made in a progressive way over a period of 5 years. For the products that are protected at customs duty rates over 20%, the tariff reduction will be made in a progressive way at a linear

Table 4: Trade in goods between Tunisia and Turkey during the four years preceding the implementation of the FTA (Millions TD)

	2001	2002	2003	2004
Agricultural and Food Processing Goods				
Exports	0.705	0.942	0.626	1.828
Share in Total Exports (in %)	0.09	0.14	0.08	0.13
Imports	63.850	10.692	9.44	10.618
Share in Total Imports (in %)	5.4	0.75	0.75	0.69
Textiles, Clothing, and Leather Products				
Exports	9.729	8.103	7.290	5.234
Share in Total Exports (in %)	0.21	0.17	0.15	0.10
Imports	27.808	31.253	26.989	40.774
Share in Total Imports (in %)	0.83	0.94	0.79	1.23
Mechanical and Electrical Industry Products				
Exports	2.710	4.545	6.172	2.943
Share in Total Exports (in %)	0.15	0.24	0.29	0.11
Imports	93.485	95.653	178.418	310.576
Share in Total Imports (in %)	1.72	1.87	3.30	4.76
Other Industrial Products				
Exports	81.638	66.058	88.523	97.879
Share in Total Exports (in %)	3.46	2.72	3.45	3.29
Imports	30.663	71.888	41.140	38.977
Share in Total Imports (in %)	0.82	1.97	1.04	0.87
Total of Trade				
Exports	94.782	79.648	102.611	107.884
Share in Total Exports (in %)	0.99	0.82	0.99	0.89
Imports	215.806	209.486	255.987	400.945
Share in Total Imports (in %)	1.58	1.55	1.82	2.53

Source: authors' calculations based on data from INS.

annual rate over a period of 10 years. However, the agreement provides some exceptions. In fact, two lists of Tunisian and Egyptian products are totally excluded from the tariff dismantling.

Regarding the agreement with Morocco, which entered into force in January 1999, it equally aims at creating a free trade area during a transition period, not exceeding the 31st of December 2007. The agreement provides the total exemption of two lists of products, a Tunisian list (T1) and another Moroccan list (M1), since the implementation of the agreement. The agreement also provides for the application, in both countries, of a unique tariff of 17.5% to a common list of products, originating from both countries (MT). For a third list of Tunisian products (T2), the agreement provides progressive tariff dismantlement at a height of 10% per year, between the 1st of January 1999 and the 1st of January 2008. For a third list of products of Moroccan origin (M2), the agreement provides the following dismantlement scheme: 37% since the entry into force of the agreement (1st January 1999), 45% since the 1st of January 2000, 53% since the 1st of January 2001, 60% since the 1st of January 2002, 69% since the 1st of January 2003, 75% since the 1st of January 2004, 80% since the 1st of January 2005, 85% since the 1st of January 2006, 93% since the 1st of January 2007 and total franchise since the first of January 2008. In addition, the agreement provides a different dismantlement scheme for a third list of products of Moroccan origin (M3).[8] Lastly, the agreement excludes two common lists of products of Tunisian and Moroccan origins from the dismantlement, in line with the agreement, signed with Egypt.

Concerning the agreement with Jordan, it also entered into force the 1st January 1999. This agreement equally provides the implementation of a free trade area by 2008. It offers the total exoneration of both lists of products (Tunisian and Jordanian) from custom duties and the equivalent-effect duties and taxes from the day of entry into force of the agreement. Besides, it grants the exclusion of two lists of products (a Tunisian list and a Jordanian list) from customs dismantling. For all the products, directly exchanged between the two countries and not figuring in any of the other lists, the agreement stipulates a tariff reduction of 10% per year during the period 1999-2008.

However, it is important that these three bilateral agreements, individually signed by Tunisia with Morocco, Jordan and Egypt comprise common provisions. In fact, the three agreements stipulate that in case of an increase of customs duties and equivalent-effect taxes, the former duties and taxes must be applied. In contrast, in case of a reduction of customs duties and the equivalent-effect taxes, the new duties and taxes must be applied. Moreover, the agreements provide the implementation of anti-dumping rules, safeguard and exceptional measures for the firms in difficulty, the newly created industries, or the restructured firms. The three agreements adopt the nomenclature of the harmonized system for the classification of products; besides, a protocol on the rules of origin is annexed to each of them.

For the agreement with Kuwait, it consists of granting a total franchise for any product originating from both countries, with the exclusion of two lists, i.e. a list for each country. The agreement also provides the application of rules of origin, which consist of having a minimum of 40% of local value added. The certificates of origin are necessary to benefit from this franchise. As for the trade agreement with Mauritania, it was signed in July 1988 and ratified in February 1989. It provides a total customs franchise for any product

[8] A dismantlement of 5% since the entry into effect of the agreement (1st of January 1999), 17% since the first of January 2000, 28% since the 1st of January 2001, 39% since the first of January 2002, 50% since the 1st of January 2003, 61% since the first of January 2004, 72% since the 1st of January 2005, 83% since the 1st of January 2006, 94% since the 1st of January 2007 and total franchise since the 1st of January 2008.

originated from Tunisian or Mauritanian. As for the agreement with Kuwait, the trade agreement with Mauritania offers the implementation of rules of origin with a minimum of 40% of local content in the value added. For Libya, a convention for the creation of a free-trade area was signed in June 2001, and ratified in November 2001. This convention offers a total customs franchise for any product, originating from both countries with the exclusion of a common list of this franchise. The convention also provides a minimum of 40% of local content in the value added in order to benefit from total franchise. Lastly, the trade and customs convention with Algeria signed in 1981 and ratified in 1991 provides a total customs franchise for any product of Algerian origin., Algeria grants customs advantages to Tunisian products at the delivery of an import license, otherwise it is the common duty that holds. The adopted rules of origin, stipulate a minimum of 50% of local content in the value added. In addition, within the framework of the Arab Summit decision of the 21st and 22nd of October 2000, the import of products of Palestinian origin is made without quotas or technical obstacles. The agreement also offers a total franchise for any product of Palestinian origin.

3. A Preliminary assessment of trade reform in Tunisia

Trade agreements signed by Tunisia represent an important step toward its integration within the world economy. Thus, they are a logical extension of a decade of economic reforms that have helped the diversification of its economy by reducing domestic and external imbalances, liberalizing trade and incentives, and strengthening the financial system. What follows is a preliminary assessment of the implementation of trade agreements. The assessment is conducted in two parts. The first part covers an assessment of the economic impact of the trade liberalization implemented by Tunisia in the middle of the 1990s, mainly regarding the GATT agreement and the FTA with the European Union. This ex-post evaluation consists of measuring changes in the main economic indicators between two periods: pre-reform or pre-trade liberalization period (before 1996) and post-reform or post-trade liberalization period (since 1996). These changes can be attributed to the liberalization program implemented since 1995. The second part of the assessment consists of measuring changes in tariff and non-tariff barriers applied by Tunisia. This will allow us to measure progress made in implementing trade liberalization in comparison with what is expected given the various trade commitments taken by Tunisia at multilateral as well as bilateral and regional levels.

3.1. A Macro-economic assessment of trade reforms[9]

The Free Trade Agreement signed between Tunisia and the European Union is expected to generate static as well as dynamic gains for the Tunisian economy. The static gains come from removal of trade distortions, while the dynamic gains will be generated through higher investments (mainly through cheaper imported capital goods) and productivity. The agreement should improve the investment climate for both domestic and foreign investors through a better access of Tunisian exports to the European market and through the reinforcement of the credibility of the economic reforms implemented by Tunisia. The implementation of the agreement will also carry transaction and adjustment costs and these should be partially compensated through an increasing financial assistance from the European Union. Transaction costs concern the loss of import duties from European exporters and implementation costs. Adjustment costs arise because intersectoral reallocation of factors needs time and resources (training of workers, etc.) Other costs that will diminish the welfare gains are associated with trade diversion (imports from the EU that will displace cheaper imports from other partners due to the preferential duties afforded to EU products). These losses could be limited through a gradual reduction of tariffs on all import's sources. In this respect, Jbili and Enders (1996), argue that the Free Trade Agreement with the European Union is likely to have a profound impact on the Tunisian economy. Over the long run, gains in growth and employment should derive from the reallocation of production factors to sectors where Tunisia has a comparative advantage and from the economies of scale associated with Tunisia's integration into a larger market. The size of such welfare gains will depend on the pace at which labor and capital are redeployed, as well as on the extent of trade creation or trade diversion, and thus on the extent of any concomitant liberalization of imports from non-EU countries. The tax reform associated with the tariff reform will also have an impact on the Tunisian economy: the more the tax reform is investment friendly, the higher the capital accumulation effects of the FTA with the EU will be on the Tunisian economy (Marouani, 2004). Furthermore, a quantitative assessment of trade liberalization of agricultural products between Tunisia and the European Union carried out by Chemingui and Dessus (2001), shows that Tunisia could experience greater gains if its agricultural products obtained better access to European markets during the transition period.

As far as dynamic gains are concerned, they may result in the expected improvement of production capacity and productivity level. Investment, including foreign direct investment, should increase as a result of the expected reduction in uncertainty implied by the adoption of EU standards and regulations, and of the likely acceleration of the Tunisian orientation towards a fully market-based and open economy. The Agreement would thus enhance existing investment incentives, such as Tunisia's relatively low labor costs and its proximity to European markets. Other influences, however, may tend to slow capital inflows. The erosion of domestic monopoly rents may boost productivity growth, and the increased openness of the economy may speed up its absorption of best practices and technologies from abroad, thereby raising Tunisia's long-run growth rate. The expected upgrading of

[9] This section is based on the two reports produced by IEQ (2003) and Lahouel and Chemingui (2004).

the telecommunications and transport services are likely to result in better access and prices for Tunisian exports and, thus, additional long-run economic gains.

The Agreement is also expected to have a significant fiscal impact as a result of the elimination of import duties on EU imports. To the extent that it will result in faster economic growth, these losses may be partially offset by higher revenues from domestic taxes. Regarding the impact on savings, investment, and the balance of payments, the agreement is likely to result, at least initially, in lower savings and higher investment, and thus in a widening of the trade and external current account deficits. The dismantling of quantitative restrictions and tariffs may stimulate private consumption by making a wider range of consumer goods available, while investment could increase as a result of cheaper imported capital goods, higher private capital inflows and efforts to expand or upgrade production capacity. The likely initial deterioration of the external current account will reflect an acceleration of import growth, driven by substitution effects and the increase in overall investment.

Since Tunisia stands to gain limited additional access for its exports to the EU, except for a few agricultural products, the expected growth of exports will result mostly from a reallocation of resources from import-substituting production to export industries, increased investment in these industries, and productivity gains. However, over the medium term this could be reversed as increased competition and other effects of the Agreement stimulate faster productivity gains in the tradable goods sectors.

While theoretical analysis shows the potential benefits that developing countries have to earn from trade liberalization, however experiences in many other countries show that the impact of overlapping regional integration agreements differs in many cases from theoretical expectations. The impact of the implementation of different regional integration agreements depends on many factors, such as: intensity and structure of trade flows among the partners and the level of domestic policy reforms. For these reasons, evaluating the specific effects of the experience of each country in integrating regional agreements of free trade represents a learning process in the sense that some impacts attributed to these agreements are not expressly demonstrated by past experiences and are more specific to a given country. Presented in the following part a preliminary assessment of implementing the different RTA commitments in Tunisia. The assessment mainly focuses on the effect of multilateral commitments as well as commitments under the FTA with the European Union. In fact, a preliminary assessment of these two agreements is possible given the period of their initial implementation (1995 for the GATT agreement and 1996 for the FTA with the EU).

3.1.1. Trade creation and trade diversion

The analysis of the recent trend in the Tunisian trade for the different products included in the tariff dismantling lists under the free trade agreement with the European Union, shows the following results:

- An increase of the value of the Tunisian imports from all origins since 1997 by an annual average growth rate of 12% against 8% during the period 1993-1996.
- This increase is due especially to the increase of imports from the European Union, which registered a higher annual average growth rate of 12% during the second period (1997-2000) against only 5.5% in the earlier period, an understandable figure since preceding the tariff dismantling with the European Union (1993-96).
- A slow increase of imports from countries outside the EU for products subject to tariff dismantling.
- A trade diversion effect in favor of the European countries is registered for the products included in list 2, which will further consolidate the position of the EU as the main trading partner of Tunisia.

Table 5 presents the annual average growth rates for imports by origin and category according to the different tariff dismantling lists adopted in the FTA with the European Union.

It is also important to note that the decrease of imports from the countries of the rest of the world started even before the beginning of the tariff dismantlement, applied by Tunisia as part of its association agreement with the EU. The trade diversion effect is

Table 5: Annual average growth rate of imports by origin in % and during the two periods: 1993-96 and 1997-2000

Import Regime	EU		Non-EU		Total	
	1993-1996	1997-2000	1993-1996	1997-2000	1993-1996	1997-2000
Imports Subject to Tariff Dismantling	5.5	12.0	-6.0	1.0	1.5	9.0
List 1	10.5	14.5	-17.5	1.0	-6.5	9.0
List 2	-0.5	17.0	5.5	-3.0	1.5	11.0
List 3	4.5	7.0	4.0	8.5	4.5	7.5
List 4	10.0	10.5	9.5	0.5	9.5	7.5
Imports in Temporary Admission	15.0	7.0	-20.5	4.5	5.5	7.0
List 1	16.0	2.0	-20.2	6.5	-11.0	3.5
List 2	17.5	13.5	-4.5	4.5	11.0	11.5
List 3	13.0	10.0	-	8.5	-3.5	10.0
List 4	15.5	3.5	-5.5	-3.5	15.0	3.0
Imports Subjects to Fiscal Advantages	2.0	19.5	-7.0	22.0	22.5	20.5
Global total	-	-	8.0	12.0		

Source: IEQ (2003).

much clearer for the lists II and IV, where the decrease of imports from the rest of the world is recorded, while imports from the EU have highly increased. The trade creation effect is limited to the first three lists.

Although this analysis provides a preliminary estimation of the trade diversion and creation effects, linked to the tariff dismantling, which was decided as part of the association agreement with the EU, it sets the limit to end up in 2000. In fact, the post-reform period (1996-2000), that is kept, only takes account of the tariff dismantlement on the two first lists; as for the dismantlement on the two other lists (list III and IV), it has just started.

3.1.2. Intra-industry trade

Developing intra-industry trade is highly desirable for a developing country like Tunisia. In fact, in addition to the technology transfer that it allows and the improvement in productivity that it generates, intra-industry trade constitutes not only a growth catalyst, but it also offers a way to promote further exports and improve the sustainability of payments. This category of trade, notably between Tunisia and the EU, recorded a growing tendency during the period 1994-2000. Nevertheless, it remains modest in comparison with what was observed in other competing countries such as Turkey and Hungary (cf. Table 6).

3.1.3. Effects on public finance

In order to assess the effect of the implementation of trade reforms in Tunisia, mainly the implementation of the free trade area with the European Union, a preliminary analysis of the structure of public revenues during the pre-reform and post-reform periods, seems very useful. Despite the tariff dismantling undertaken by Tunisia since 1996 in the context of its commitments for establishing a free trade area with the European Union, the share of tax revenues to GDP remains almost constant, varying between 19.9% in 1995 and 19.1% in 2003. Also, in spite of declines of tariff revenues as share of GDP (from 4.5% in 1995 to 1.7% in 2003), government revenues stemming from direct taxes and other indirect taxes increased in average by 10.2% per year from 1995 to 2003. This growth of government tax revenues is mainly generated by direct taxes (13.1% increase per year between 1995 and 2003), and the Value Added Tax (10.6% per year between 1995 and 2003). The increase in consumption tax and other indirect taxes were less important with an annual increase of 7.6% and 4% per year respectively during the period 1995-2003. Fiscal compensation of loses in tariff revenues are generally achieved through the extension of taxability and a better collection rate than through an increase of the rates of the existing taxes or through the introduction of new ones.

Given these figures, international institutions have rated the fiscal adjustment in Tunisia as a success, and expectations are that future tariff reductions envisaged under the different

Table 6: Intra-industry trade

Country/Year	1992	1996	1997	2001	2002	1992-1996	1997-2001
Egypt	11.9	06.1	05.6	14	12.7	07.9	11.2
Hungary	44.3	48.5	51.7	54.2	56.6	58.3	60.3
Turkey	20.2	25.6	25.4	24.1	25.8	30.2	29.4
Morocco	10.4	09.2	10.4	12	16.6	20.9	16.1
Tunisia	21.9	22.7	24.1	25.1	26.1	27.1	32.5

Source: IEQ (2003).

free trade agreements will not disturb the budget balances. Furthermore, the preservation of the domestic financial balances through controlling the budget deficit, which was limited to an average annual rate of 3% of the GDP during the period 1997-2001, constitutes one of the main targets of the Tunisian macro-economic policy. In fact, and in spite of the impact of tariff barriers removal, the budget deficit is expected to decline continually according to the goals of the tenth development plan (2002-2006). Tables 7 and 8 present the recent trends in tax and public finances.

This relative success, realized by Tunisia in the fiscal compensation of tariff losses, hides some fiscal practices of the tax administration to ensure greater revenues and which could have a negative impact on some activities. In fact, after the successive increases of the VAT rates throughout the implementation period of customs dismantling[10], other fiscal instruments have been reinforced. The duties of customs declarations, fiscal stamps, contributions to special funds (26-26 and 21-21), administered prices of energy products, and many other categories of fees linked to the public service have increased significantly, and in some cases have even doubled from a year to another. Moreover, the increase of the direct fiscal receipts (income and benefit taxes) has often been realized through the increases of contributions, decided on the basis of the budgetary objectives of the Government, without taking into account the evolution of the levels of benefits or incomes generated by some economic activities. Among these, one of the most affected, is the handicraft sector, which saw its imposition rate increase, whereas for certain activities the income level decreased during the last years. For example, the taxes on the benefits of contractual regimes are revised every year at the higher abstraction, made on the evolution of the level of incomes or benefits. This increase of the fiscal pressure of the handicraft sector, the first employer sector in Tunisia, has negatively affected the income of the corresponding households.

[10] The last increase in VAT was decided within the framework of the last law of finance of 2006, in which the rate passed from 18 to 19%% 19%.

Table 7: Tax revenues (MD)

	1995	1996	2000	2001	2002	2003
Duties and Taxes on Imports	773	741	642	655.2	594.8	553.6
Value-Added Tax	899	1008	1770	1930.0	1895.1	2006.3
Taxes on Consumption	596	642	939	1019.8	1044.9	1073.1
Other Indirect Taxes	309	314	379	411.8	473.3	420.6
Direct Taxes	811	892	1597	1827.7	2024.6	2176.8
Total Tax Revenues	3388	3597	5327	5844.5	6032.7	6230.4
Tariffs Revenue/GDP (%)	4.5	3.9	2.4	2.3	2.0	1.7
Total Tax Revenues/GDP (%)	19.9	18.9	19.8	20.3	20.1	19.1

Source: IEQ (2003).

Table 8: Trends in public revenues (MD)

	1995	1996	2000	2001	2002	2003
Indirect Taxation	2577	2705	3730	4016.8	4008.1	4053.6
Direct Taxation	811	892	1597	1827.7	2024.6	2176.8
Total Taxes Income	3388	3597	5327	5844.5	6032.7	6230.4
Structure in Total Tax Revenues of the Government (%)						
Indirect Taxation	76.1	75.2	70.0	68.7	66.4	65.1
Tariffs	22.8	20.6	12.1	11.2	9.9	8.9
Direct Taxation	23.9	24.8	30.0	31.3	33.6	34.9
Share in GDP (%)						
Indirect Taxes	15.1	14.2	14.0	14.0	13.3	12.4
Direct Taxes	4.8	4.7	6.0	6.4	6.7	6.7
Total Tax Income	19.9	18.9	20.0	20.3	20.1	19.1
GDP in MDT	17051.8	19066.2	26685.3	28757.2	30085.8	32662.0

Source: IEQ (2003).

3.1.4. Effects on growth

Over the first 8-year period (1996-2003) following the implementation of tariff dismantling, real GDP grew at an average annual rate of 5.0% compared to an average of 4.4% per year during the pre-reform period (1992-1996). The overall increase in factor productivity has contributed to over one-third of the economic growth achieved during the post-reform period in an environment marked by inflation control, which was reduced to 2.7% in 2002 and 2003. Some analysts attribute this performance partly to the liberalization process undertaken during this period where tariffs on equipment goods and inputs were totally abolished. However, the weak level of performance during the pre-reform period could explain partly the difference between the two periods. In fact, the pre-reform period witnessed the succession of years of drought on the one hand, and international political crises, mainly linked to the Iraqi situation, on the other. It is also important to point out that the post-reform period has also been marked by the events of the 11th of September, but the amplitude of its effects on the Tunisian economy has been limited to the air transport and the tourism sectors, during a relatively short period.

Table 9 shows that the sectoral achievements, in terms of growth in GDP, have fluctuated from year to year. Overall and comparing pre and post liberalization periods, improvements in growth rates of sectoral GDP were observed for all the economic sectors. This shows that the trade liberalization process has been unable to accelerate the level of diversification of the economy, or even of the specialization of the country. Thus, despite this process of economic liberalization, economic growth in Tunisia continues to be sustained by two main sectors: tourism and agriculture. When these sectors realize good performances, the whole economy grows at a satisfying rate, but when these two sectors are in a crisis, the whole economy is affected. Thus, explaining the relatively good performances of Tunisia in terms of growth by the liberalization process is far from being obvious. Indeed, Tunisia has not been able to take advantage from this free trade process in order to diversify its economy. The latter remains dominated by the labor-intensive activities on the one hand (textiles and clothing) or by the traditional activities (tourism and agriculture) on the other hand. Actually, the economic performance linked to the realization of an average growth rate of 5 % cannot be considered as a remarkable performance, at a time when many developing countries ensure much more important rates, exceeding 10 % in some cases.

Table 9: Annual growth rate of GDP by sector

	1990	1995	1996	2000	2001	2002	2003	1990-1995	1996-2003
Agriculture and Fishing	30.3	-9.9	29.5	-1.0	-2.0	-11.0	21.5	4.1	6.3
Manufactured Industries	-21.9	9.6	2.8	6.6	6.9	1.9	0.7	1.1	4.5
Industries	2.2	5.5	3.2	5.5	5.7	3.2	0.9	4.0	4.3
Services	6.0	3.6	4.4	5.7	6.0	3.6	6.3	5.2	5.4
Real GDP	8.0	2.3	7.1	4.7	4.9	1.7	5.6	4.6	5.0

Source: IEQ (2003).

3.2. Ex-post evaluation of trade reforms

Liberalization measures and reforms have been introduced to promote economic efficiency and lay the groundwork for long-term growth. Improving the environment in which enterprises operate has been the main focus of economic reforms implemented since 1995. Trade liberalization and many other reforms (fiscal, exchange rate, etc.) have improved the economic situation of the country, as demonstrated by the rank of the Tunisian economy in international classifications. In fact, according to the annual report on global competitiveness (2004), Tunisia holds the 42nd place; thus preceding Italy (47th), Morocco (56th), Poland (60th), Romania (63rd) and Turkey (66th). The same report ranks

Tunisia 32nd with respect to micro-economic competitiveness ahead of Italy (34th), Morocco (46th), Turkey (52nd), Romania (56th) and Poland (57th). This ranking includes 104 countries, and was elaborated according to objective indicators that aim to measure technological progress and the maturity of the business macro-economic environment. In addition, the 2004 annual report on economic freedom published jointly by the Heritage Foundation and the Wall Street Journal, ranked Tunisia among those economies that are globally liberal, with an index that had marginally improved from 2.95 in 2003 to 2.94 in 2004, and a rise from the 68th place in 2003 (out of 156 countries) to the 67th place in 2004 (out of 161 countries). This improvement for Tunisia is the result of higher scores in the government's assessment of the tax burden as well as lower state intervention in the economy. This new ranking places Tunisia before Lebanon, Malaysia, Mauritius, Turkey and Egypt.

Notwithstanding these reforms, it is still premature to confirm that the Tunisian economy is more open today than in the early 1980s. It is true that the system of quantitative restrictions covering most imports between the end of the 1980s and the beginning of the 1990s were abolished after Tunisia's accession to the WTO in 1995; nevertheless, tariffs were consolidated at very high levels, and technical control and custom clearances remain complicated and costly. While some obstacles to trade are still present, the integration of the Tunisian economy in the global economy is on upward trends. In fact, when comparing the pre-trade reform with the post-trade reform, the degree of openness of the Tunisian economy (sum of total exports and imports relative to GDP) remained stagnant: it recorded an average of 70.4% during the period 1990-1995 versus 74.1% during the period 1996-2004 following the reforms. During the same period, some other MENA countries observed a decline in their degree of openness, but several countries outside the MENA region, notably the CEEC countries and those of South-East Asia, were able to deepen their integration into the global economy (cf. Table 10).

Overall, the level of integration of Tunisia in the world economy is considered relatively modest despite the dismantling of tariffs since 1996. This situation can be explained by the fact that the degree of import penetration in the Tunisian market is still weak. Imports remain mainly concentrated in raw materials, semi-finished products intended for re-exports under the off-shore system, and goods not produced locally (pharmaceutical products, cars…). The reasons include: i) high tariffs on finished goods, and ii) high prevalence of non Tariffs Barriers (NTBs) which greatly discourage imports.

In the case of Tunisia, it is important to distinguish between imports of raw materials and semi-finished products and imports of consumer goods. In fact, raw materials and semi-finished products can be re-exported under the off-shore system, which still dominates the manufacturing sector in Tunisia. Table 11 shows imports according to the nature of their use. Data demonstrate that the share of the off-shore system in total imports has increased from an average of 29.3% during the pre-trade reform period (1993-95) to 32% during the more recent period between 2000 and 2002. Furthermore, the rate of import penetration, measured by the ratio of imports of consumer goods to GDP, has experienced a decrease between the pre-trade period (1993-95) and the most recent years of the post-trade period (2000-2002), from 32% to about 30%. At the same time, the ratio of total imports to GDP shows an increase between the two periods: from an average of 42.6% during the period 93-95 to 45.6% during the second period. The reason of this increase is explained by the changes in the structure of imports. In fact, imports of raw materials, semi-finished and equipment goods grew much faster than imports of consumer goods. The tariff-dismantling plan adopted in the FTA with the EU explains this tendency in the structure of imports, as duties on equipment goods and raw materials were abolished immediately in the first year of implementation of the FTA.

In what follows, we will try to explain the reasons behind this tendency and the structure of the Tunisian imports, through the description of the actual structure of tariff and non-tariff protection, which is still applied to imports.

Table 10: Evolution of the Degree of Openness (1993-2002)
(Exports & Imports of Goods and Services/GDP in %)

Country	1993-95	Recent 3 Years	
Egypt	52,9	2000-2002	32,7
Jordan	125,2	1998-2000	107,8
Morocco	54,7	1999-2001	57,0
Tunisia	71.2	2002-2004	77.6
Turkey	39,7	2000-2002	60,0

Source: Lahouel and Chemingui (2005) and our calculations.

3.2.1. Tariffs barriers

The dismantling of tariffs within the framework of the association agreement reduced the already high tariff rates applied on Tunisian imports from the European Union. In this context, the gap between tariffs applied to imports from the EU and from the rest of the world has widened. In 2003 and according to the World Bank (2004), average (un-weighted) Tunisian MFN tariffs were of 28.6%, slightly down from 35.9% in 2000, and compared to 24.3% for imports originating from the EU. The gap is much larger for non-agricultural products, for which average Tunisian MFN tariffs in 2003 were 22.2%, against 10.9% for imports from the EU. High MFN tariff differentials with respect to EU preferential tariffs may be at the origin of trade diversion, denying to Tunisian producers and consumers the benefit of less expensive imports from outside the free-trade zone with the EU. Furthermore, tariff rates in Tunisia are still considered as being among the highest in the world. In 2002, Tunisia's non-discriminatory tariffs have reached an average of 34.5%, against an average rate of 12.8% in the same year for all middle-income countries (Table 12). In addition, these tariffs have evolved very slowly since the beginning of the 90s, though they were reduced by more than 40% on average in the middle-income countries. Non-discriminatory tariffs applied on manufactured imports were among the highest in the world, reaching more than twice the average rates in other middle-income countries. Even vis-à-vis the EU, tariffs are almost equal in 2003 to the average of the non-discriminatory rates of middle-income countries (12% against an average of 12.6%).

Table 11: Repartition of Tunisian exports and imports by trade regime (off-shore and on-shore (1993-2002))

	1993	1994	1995	2000	2001	2002	Average 93-95	Average 2000-02
Exports (in %)	100	100	100	100	100	100	100	100
- On-shore Regime	41,3	39,7	36,2	36,4	32,3	30,7	39,1	33,3
- Off-shore Regime	58,7	60,3	63,8	63,6	67,7	69,3	60,9	66,7
Imports (in %)	100	100	100	100	100	100	100	100
- On-shore Regime	73.1	70.2	69.0	70.3	67.6	66.4	70.7	68.1
- Off-shore Regime	26,9	29,8	31,0	29,7	32,4	33,6	29,3	31,9
Rate of Penetration								
- Total of Imports	45,0	45,3	47,2	44,0	47,7	45,2	45,9%	45,6%
- Imports for Final Consumption	32,9	31,8	32,6	30,9	32,2	30,0	32,4	31,0
Degree of Openness								
- Total Imports of Goods	72,5	77,4	79,9	74,0	80,7	77,8	76,6	77,5
- Imports for Final Consumption	60,3	63,8	65,3	60,9	65,3	62,6	63,2	62,9

Source: Lahouel and Chemingui (2005).

Despite the fact that Tunisia was the first southern country to start the implementation of the FTA with the European Union, Tunisian tariff rates are among the highest MFN tariffs in the MENA region.

Nevertheless, the tariff rates calculated on the basis of effectively collected duties are clearly lower than the statutory rates because of exonerations and reductions granted to some activities, mainly exporting activities under the off-shore sector, and the relatively low rates of imports of some agricultural products in the framework of the quotas. In 2001, the average effectively collected rate as a share of total of imports (in value) reached only 4.8% while the statutory average rate on European products was 23.8%. Nevertheless, only the statutory rates are relevant in the analysis of the level of protection of firms producing for the local market. Thus, keeping high tariff rates on products originating from countries outside the EU induces two negative effects. The first is the risk of trade diversion from cheaper sources located outside the EU towards more expensive European sources. The second effect is to reduce the competition intensity in the local market. In order to minimize these distortions and enhance the domestic competition intensity, Tunisia must reduce its non-discriminatory rates by almost 60%, from an average of 30% down to 12%.

The rate of import penetration of the local market has remained stagnant since the start of tariff dismantling. For consumer goods, excluding agriculture and food products, the ratio of imports to GDP has not changed since 1995, with an average rate equal to 5.4% both during the pre-trade period (1993-95) and the post-trade reform (1996-2003). It should be noted that 66% and 50% of tariffs on imports of goods of lists 3 and 4 from the European Union were already reduced.

Table 12: Average tariff rates (International Comparisons) [a]

	All products				Manufactured Products[b]		Agricultural Products[b]	
	Year	Average Tariff Rate	Year	Average Tariff Rate	Year	Average Tariff Rate	Year	Average Tariff Rate
Tunisia	1990	28,3	2002	34,5	1999	26,3	1999	30,5
Jordan	1990	12,2	2002	14,9	2001	15,4	2001	21,8
Egypt	1991	42,2	2002	22,0	1998	20,2	1998	22,7
Morocco	1990	24,8	2002	31,6	2001	31,1	2001	36,6
Turkey	1993	26,7	2002	10,2	2000	6,3	2000	16,7
All Middle Income Countries	1990 (78 pays)	21,4	2002	12,8	1996-2001 (68 countries)	11,0	1996-2001 (68 countries)	14,3

a- Simple Averages of MFN Tariffs Rates.
b- Applied Average Rates MFN.
Source: Lahouel and Chemingui (2005).

Agriculture and food processing continue to be strongly protected. The free trade agreement with the EU is limited to non-food processing manufactured products; trade in agricultural products is still governed by the commitments taken by Tunisia in the multilateral framework of the WTO. In principle, quantitative restrictions were converted to tariffs, but as has been the practice elsewhere in the majority of WTO member countries, the bound tariff rates were set at very high levels. While nominal protection rates before the conclusion of the Marrakech Agreement averaged 39% and 46% for agriculture and the food processing industry respectively, these rates increased to 136% and 88% in 1997. These rates were reduced in accordance with the agreement on agriculture but were still fixed at very high levels, 89% on average for agricultural products and 72% for food processing products (Table 13).

Table 13: Nominal protection by activity (1995-2002)

	1995	2000	2001	2002		2003	
		UE	UE	UE	RM	UE	RM
Agriculture and Fishing	39	126	100	98	98	89	89
Industry	37	34	30	28	38	24	34
Manufactured Industry	43	39	36	33	45	29	42
Agri-Food Processing	46	82	81	81	82	72	42
Mechanical and Electrical Industries	30	23	19	18	31	14	39
Chemical Industry	25	21	17	15	24	13	30
Textiles and Clothing	62	35	30	26	40	22	24
Non-Manufactured Industries	11	11	3	3	9	1	3
All sectors	34	42	36	35	43	31	39
All Sectors Except Agriculture and Agri-Food Processing	30	21	16	15	24	12	22

Source: IEQ (2002).

Effective protection decreased but remains high. It increased during the first years of tariffs dismantling on European manufactured products as a result of the dismantling sequence that was adopted: it started with goods that do not compete with local production. This situation was rectified in the dismantling phase of tariffs with the entry in the 4^{th} list of competing products (Table 14).

3.2.2. Non-Tariff Barriers (NTBs) and Technical Barriers to Trade (TBT)

Despite progress in nominal tariff reduction, the Tunisian trade regime remains protected. Tunisia's trade liberalization has focused on the European Union, yielding significant gains in protection for Lists 1 and 2 products (capital and intermediate goods). However, Lists 3 and 4 (mainly consumer goods with close substitution to domestic production) still receive long-term exemptions. Furthermore, according to the IMF, Tunisia’s trade restrictiveness index is as high as 8 out of 10, a result that is due to high top marginal rates (215%) and a variety of non-tariff barriers. Average tariffs are also high and non-tariff barriers remain extensive, covering some 33% of all tariff lines among the highest coverage ratios in the world. The earlier extensive quantitative restrictions have progressively been relaxed. But some items still remain subject to import licenses or quotas; particularly consumer goods that compete with locally produced manufactured equivalents, such as textiles. For these products, an importer must obtain a license from the Ministry of Commerce specifying the product, the quantity and the amount of foreign exchange needed (World Bank, 2004).

Both non-Tariffs Barriers (NTBs) and Technical Barriers to Trade (TBT) remain costly and act as barriers to trade. Customs clearance and technical control are the main obstacles to trade in Tunisia. Typically, the purpose of technical control is to verify the conformity of imported products with the sanitary and security norms. Tunisian legislation foresees

Table 14: Effective protection by activity (1995-2002)

	1995	2000	2001	2002		2003	
		UE	UE	UE	RM	UE	RM
Agriculture and Fishing	45	162	123	120	118	110	108
Industry	55	47	36	35	55	30	47
Manufactured Industry	85	68	60	57	92	49	87
Agri-Food Processing	71	49	67	70	63	61	51
Mechanical and Electrical Industries	64	83	48	43	104	66	104
Chemical Industry	65	82	49	55	101	37	87
Textiles and Clothing	126	79	69	59	88	46	90
Non-Manufactured Industries	12	15	3	4	11	1	1
All sectors	41	63	50	49	60	44	54
All Sectors Except Agriculture and Agri-Food Processing	34	30	20	19	34	16	29

Source: IEQ (2002).

three types of control, which are applied according to the nature of the imported goods. The first one is the systematic control required before any sale on the local market. This control is performed on samples through tests and investigations, carried out by those responsible in the technical services. The second control is the certification by the custom services of the accordance of imported products with the technical regulation and standard, while the third type ensures the product's accordance with the “Bid Specifications”.

Since the accession of Tunisia to the WTO in 1995, technical control has been enforced. Prior to that, tariff equivalent of technical control accounted for about one quarter (25.9%) of the value of imports in 1994. This tariff equivalent of technical control increased respectively to about 30.5% in 2001 for goods subject to such control (cf. table 15). The increase may be mostly attributed to the process of certification of consumer goods. Nevertheless, systematic control remains very important, accounting for about 14% of the value of imports in terms of tariff equivalent. It is this last type of control that is at the origin of the severe inefficiency and the various delays that continue to plague the import sector. Furthermore, the customs clearance procedures for imports intended to the local market are still very heavy, in contrast to the procedures applied to imports by the off-shore sector, which are relatively simple. Customs clearance under the off-shore system is carried out by a customs employee at the plant itself and not at the entry point of the product to the country. Exports are also inspected at the plant itself on one hand. On the other hand, imports for the local market continue to suffer from delays in customs clearance. The average estimated time required for customs clearances is three weeks in Tunisia while it is only a few days in other countries. These excessive delays are translated into additional costs on top of the already existing tariffs. For this reason, one of the advantages of the off-shore system is that transaction costs are kept to a minimum. The reduction in the number of customs tariffs to only 10 and the narrowing of the differential between MFA tariffs and those applicable under the Association Agreement with the EU are notable. These measures will improve the customs administration and should be accompanied by a simplification of technical controls and the promulgation of a new customs code to facilitate customs procedures.

Regarding NTBs, the public sector is still monopolizing imports for several products through state trading boards or public enterprises. This is the case for several products, such as petroleum products, drugs, cereals, seed oils, tobacco, alcohols, coffee, sugar and tea. Such import monopolies cover about 15% of the import bill (World Bank, 2004). As an example of public enterprises holding monopolies over the importation of selected goods, the Tunisian Trade Office (Office de Commerce Tunisien) holds monopoly over the importation of basic products such as sugar and rice while the Central Pharmacy holds monopoly over imports of most pharmaceutical products. Imports of mining and oil products are also under the control of public monopolies. As a rule, imports of most of these products are subject to regulations by "Bid Specifications" that prevent delay being elaborated and published by the Tunisian authorities. State monopolies are much more prevalent in services markets such as electricity and water supply. Dismantling of some import monopolies where domestic prices are subsidized call for appropriate adjustments of domestic prices.

3.2.3. FDI and privatization

One of the main objectives for Tunisia to establish the free trade agreements was to attract foreign direct investment. Given the slow increase of FDI corresponding to the creation of new firms, Tunisia decided to accelerate the process of opening the capital of large state firms to foreign investors. This would allow the realization of two objectives at the same time: attract foreign capital and improve the business environment (which has been a regular recommendation of international financial institutions) by privatizing some of the largest state enterprises and giving their control to foreign groups to improve their management and ensure technology transfers. Since 1998, FDI inflows increased substantially in Tunisia, mainly due to the privatization of large state firms. Total FDI inflows increased from an average value of 425 millions USD $ per year during the period 1991-96 (2.6% of GDP) to an average of 562 millions USD $ (2.8% of GDP) during the period 1997-2002 (Table 16).

The program offers wide opportunities for foreign investors in different sectors, especially those related to infrastructure and to the manufacturing sectors. Privatization was recently extended to the financial and telecommunication sectors. Overall and during the past years, privatization has significantly contributed to the increase of FDI inflows and to the compensation of FDI declines in the energy sector. With the exception of some minor privatization actions that took place during the 1980s, privatization of public entities was marginal until 1998, when only two cement plants were privatized. The speed of privatization was accelerated since 2000 with the sale of a third cement plant, and the sale of a public bank to a French bank followed in 2002. Total privatization receipts exceeded 1000 millions Dinars during the period 1998-2002. Without accounting for the sale of public entities to foreign investors, FDI inflows have slightly regressed during the period 1991-1997, decreasing from a yearly average of 427 millions USD $ to 400 millions USD $ during the following period 1997-2002. All sectors are now being privatized. Tunisia has started

Table 15: Non-tariffs barriers in Tunisia: technical control (1994-2001) (in % of tariff equivalent)

Nature of Use	Total Technical Control		Systematic Control		Certification		Bid Specifications	
	1994	2001	1994	2001	1994	2001	1994	2001
Human Alimentation	9,7	9,7	8,2	8,2			1,5	1,5
Energy	0,4	0,4					0,4	0,4
Mineral Products	2,6	2,6	2,4	2,4			0,2	0,2
Vegetal Products	0	0						
Semi-Products	3,9	4,0	0,7	0,8	2,8	2,8	0,4	0,4
Agriculture Equipment	0,4	0,4	0,2	0,2			0,2	0,2
Industrial Equipment	2,1	2,3	0,7	0,9	0,9	0,9	0,5	0,5
Consumption Goods	6,8	11,1	1,7	1,9	4,5	8,8	0,4	0,4
Total	25,9	30,5	14,0	14,5	8,1	12,5	3,5	3,5

Source: Lahouel and Chemingui, 2005.

privatizing companies operating in a competitive environment such as the manufacturing industries; this measure was followed by a privatization in tourism, trade, and construction. The financial sector is also being privatized. At present, one bank is privatized while another one is under privatization. The insurance sector and maritime transport are also on the list. The telecommunication sector is now open to competition. A second GSM license has been granted to a private operator. Air transport is also on the way of being privatized through the progressive selling of public shares at the stock market.

Although the privatization process has been reinforced during the last years of the post-reform period, many drawbacks still characterize this process. The first is relative to the privatization modalities. In fact, many public enterprises have been privatized, in the absence of well-elaborated bids of invitation. The second drawback is due to the fact that foreign operators, interested in the privatization operations, have been subject to many restrictions. As an example, the insurance sector remains thoroughly nationalized, and the quality of its services is more and more critical. The banking sector, operating on the on-shore market remains highly regulated by the Central Bank and, the public banks go on enjoying an important advantage over the foreign banks. In this context, the real state bank “Banque de l’Habitat” practically holds the monopoly of finances for this sector, while the National Bank of Agriculture keeps the monopoly on agricultural loans.

4. Implementation of the Tunisian commitments in the context of its bilateral and multilateral trade agreements

The issue often raised by Tunisian trade partners is whether the rhythm and depth of Tunisian actual trade reforms are in line with its bilateral and multilateral commitments. According to many interviewed importers, trade facilitation in Tunisia has not advanced as quickly as liberalization, at least concerning industrial products imported from the EU. Many obstacles at the customs, harbor administration and quality control induce high transaction costs. These problems are compounded by high cost associated with monopolistic services in the harbor handling and the weak competition in the transport sector. These distortions eat up the competitive advantage that Tunisia enjoys due to its proximity to the European market. Foreign trade operations are very complex in Tunisia due to the weak communication between the different actors of the foreign trade activity (importers, ministries, banks, customs, etc.) and the multiplicity of documents needed at different

Table 16: FDI Inflows to Tunisia and other MENA countries (1991-2002)

	1991-96		97-2002		2001		2002	
	Inflows in US$ million	As % of GDP	Inflows in US$ million	As % of GDP	Inflows in US$ million	As % of GDP	Inflows in US$ million	As % of GDP
Egypt	714	1,4	903	1,1	510	0,6	647	0,8
Morocco	406	1,3	1242	3,6	2808	8,3	428	1,3
Tunisia	425	2,6	562	2,8	486	2,4	710	3,4
Jordan	4	0,1	343	8,5	100	2,3	56	1,3
Turkey	751	0,5	1302	0,8	3266	2,2	1037	0,6

Source: Lahouel and Chemingui (2005).

levels. An importer can wait up to 18 days to obtain his merchandise following its arrival in the port. The average period is of 8 days, while it is 4 to 5 days in other countries like Argentina or Brazil. In Tunisia, goods take more time to leave the port than to cross the Mediterranean Sea. Sometimes a product can wait months before being released to the market. This is due to the reduced number of technical control centers who act as monopolies. In what follows we analyze the progress realized by Tunisia in the implementation of the trade reforms in terms of liberalization and trade facilitation.

4.1. Commitments and achievements in terms of trade liberalization

4.1.1. Liberalization of trade in goods

4.1.1.1. Under the WTO

According to the WTO, market access should be improved through three main channels. The first consists in substituting non-tariff barriers for agricultural products by custom duties and the consolidation of the tariff rates. The second consists in guaranteeing a minimal access to its markets through tariff rate quotas concessions. The third operates through progressive tariff reduction.

Regarding commitments for agriculture sector, Tunisia has removed the authorizations of agricultural imports (decree n° 96-1118, June 10, 1996). The substitution of quotas by tariffs started since the beginning of the 1990s with the Structural Adjustment Program. However, the Government still has the monopoly of imports of some products like wheat. In addition, in practice, many agricultural products have not yet been authorized to be imported. Mostly, for the few imported products, a license is required and often it is granted to a single importer. Sometimes, it is the State itself that exclusively ensures the importation of certain agricultural products through the intermediary of the professional groups or its public enterprises as is the case for potato, meat and occasionally milk. Tunisia committed vis-à-vis the WTO to consolidate 1503 tariff lines (25% of the total) between 25% and 250%. The average consolidated tariff rate for Tunisian agricultural imports is of 116 %. According to the Ministry of Trade, Tunisia has respected its commitment of reduction of its agricultural tariffs by 2.4 per year since 1995. Moreover, according to the same source, Tunisia offers each year tariff rate quota concessions. The reduction of trade-distorting domestic support concerns administered prices (mainly for cereals) and input subsidies in Tunisia. The Aggregate Measure Support has been calculated for each of the concerned products. Tunisia has committed to reduce its support by 13.3% in ten years (from 1995 to 2005). At this level, Tunisia has already made great progress in the reduction, and even the elimination of agricultural subsidies and other forms of support since the application of the structural adjustment program in 1986. Thus, for Tunisia, the commitments taken within the framework of the GATT agreements have not been constricting. However, the actual agricultural policy offers many categories of equipment subsidies for different activities, inscribed in the policy of the country in terms of the mobilization of water resources and the encouragement of certain agricultural productions. This is namely the case of irrigation, whose investments are highly subsidized. Concerning commitments for Industrial products, Tunisia committed to consolidate 2502 tariff lines (41.3% of the total) between 17% and 52%. This consolidation entered into force with the Finance Law of 1995. Most of the applied rates are lower than the consolidated rates (the average consolidated tariff rate for industrial products is of 40.6%). It has also committed to consolidate 859 tariff lines in the textile and clothing sector. Officially, import licenses in this sector have been removed since 1996 and Tunisia notified the WTO of the integration of the first (16% of 1990 imports), second (17%) and third (18%) list of textile products in the general WTO regime, following the Textile and Clothing Agreement signed in 1995. But practically the licenses or rather the importation authorizations are still imposed on the imports of certain sectors, including the textile and clothing products. Moreover, Tunisia committed to reduce its tariffs in this sector from 90% to 60% by 2005, which has not been done according to our analysis on the current rate of protection.

4.1.1.2. Under the free trade agreement with the European Union

The trade liberalization component of the Euro-Tunisian agreement entered into force in 1996, it consists mainly for Tunisia in a gradual dismantling of its tariffs on the products imported from the EU in 12 years. Four lists of products have been defined. The first comprises equipment goods, which do not have local equivalents (12% of the imports). Tariffs of the first list have been dismantled during the first year. The second consists of equipment goods, which compete with domestic products (28%). The commitment for this list was a gradual dismantling ending in 2001. Tariffs on the imports of products from this list have been totally removed. The third list comprises consumption goods, which have local equivalents, supposed to be competitive with European products (30%). Tariff removal for these products will end in 2008. The last list is the most sensitive because it is composed of products for which Tunisian producers are supposed to be non competitive (30%). The dismantling of tariffs from this list started in 2000 and will end in 2008.

Tunisia is making a considerable progress in tariff dismantling in the context of the Association Agreement with the EU. The implementation of the tariff-dismantling schedule under the FTA with the EU is on track. Around 55% of the tariff reductions are already in place. Tariffs were totally removed for capital goods in 1996. Since the year 2000, tariffs have been totally dismantled on the second list of goods, that consists of raw materials and intermediate goods. Imports duties on the third and fourth lists have been cut by about 75% and 62% respectively by the end of 2004. This liberalization excludes agricultural goods as well as the agricultural components of processed food. While duties on imports originating from the EU were reduced as scheduled in the agreement, imports for some products still remain subject to import licenses or quotas or also to monopoly, especially consumer goods that compete against locally produced manufactured equivalents, such as textiles. For such products, an importer must obtain a license from the Ministry of Commerce specifying the product, the quantity and the amount of foreign exchange needed. Furthermore, and for other goods, such as popular cars, imports by local distributors remain subject to quota fixed yearly by the Ministry of Commerce for each category of cars. Moreover, imports of several other products, such as oil products, drugs, cereals, seed oils, tobacco, alcohols, coffee, sugar, and tea, remain monopolized by the state trading boards or public enterprises. Such import monopolies cover about 15% of the import bill.

It is important to note that despite the law, adopted on the customs value to be used for the calculation of customs taxes, based on the customs declarations with the necessary vouchers, the Tunisian customs continues to use reference prices which are fixed at levels capable of compensating the loss of protection linked to the customs dismantlement process. The use of these reference prices, which are illegal according to the agreement with the European Union and the law on the reform of the modalities for the determination of customs value, has been highly reinforced since 2004.

Table 17: Tariff dismantling schedule (in % of initial rates)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
List 1	100	0	0	0	0	0	0	0	0	0	0	0	0	0
List 2	100	85	70	55	40	25	0	0	0	0	0	0	0	0
List 3	100	92	84	76	68	60	52	44	36	28	20	12	4	0
List 4	100	100	100	100	100	88	77	66	55	44	33	22	11	0

Regarding agricultural and fishing products, they have a special treatment in the Euro-Tunisian agreement. Tunisia granted new concessions to EU agricultural products, but with many constraining rules in certain cases. These concessions could be classified in 5 groups:

- Products that are exported in Tunisia free of tariffs, without any quantitative restriction and without any limitation of export calendar.
- Products that are exported in Tunisia free of tariffs, but with limitations in terms of quantities and calendar.
- Products that benefit of a zero tariff for a defined quota and a reduced tariff for the quantities exceeding the quota.
- Products that benefit of a zero tariff for a defined quota and a normal tariff for the quantities exceeding the quota.
- Products that benefit of a reduced tariff without any limitations of season or quantity.

With regard to the concessions granted by the EU, they allow Tunisian fishing exporters to sell freely in the European market, except sardine preparations for which the EU has fixed a small quota. The agreement also grants the Tunisian exporters of agricultural products zero tariff quotas for certain products without limitation of calendar, and for others with an extended period of export. The agreement also stipulates that the quotas had to increase by 3% per year from 1997 to 2000. However, the new agricultural agreement signed in January 2001 modifies these dates to "2002 to 2005"; grants higher quotas to Tunisia for certain products (like olive oil or processed tomatoes); and fixes a new date for further liberalization talks (January 2006).

When we observe the Tunisian actual exports compared to the quotas, we note that except for certain products, Tunisia is far from fulfilling its quotas. Since the negotiations with the EU are usually based on the historical evolution of exports during the few preceding years, this can weaken Tunisia's position in future negotiations. The problem is that Tunisia's exports are highly irregular due to instable weather conditions. Thus, the quota could be binding for years characterized by good rainfall and far from it when the weather conditions are bad.

4.1.1.3. Under the other bilateral trade agreements

Regarding trade liberalization under the other trade agreements, Tunisia officials argues that Tunisia applied all of its commitments for the agreements already implemented. Concerning the implementation of trade agreements with Arab countries, in the context of GAFTA or Maghreb Union or also for the bilateral free trade agreements signed individually with Egypt, Jordan and Morocco, tariffs reductions are also implemented progressively on the different lists. The main obstacles towards increasing and diversifying trade with the other Arab countries are the complicated rules of origin and the limited number of products covered by these agreements. Regarding the FTAs signed with the EFTA, Turkey and the member of the Agadir process, their implantation are not yet started as these agreements need to be ratified by the signatory countries and mechanisms for implanting the different commitments have to be defined

4.1.2. Liberalization of services

Tunisia has granted WTO commitments only for tourism, financial services and communications (cf. Table 18).

Regarding trade in services, the commitments under the FTA with the European Union go hand in hand with the multilateral commitments under the GATS agreement. According to the World Bank (2004), liberalization of trade in services is the most difficult task in the agreement for two main reasons. The first is that the State monopolies are much more prevalent in services markets in Tunisia and as a consequence it is more complicated to remove barriers in the corresponding sectors. The second reason comes from the nature of Tunisian commitments under the GATS limited to only three sectors. There are no commitments in the other key services sectors, such as transport and distribution.

4.1.2.1. Communication services

Despite the progress achieved during the the last three or four years, Tunisia is still behind in the technologies of information and communication field. The evaluation of the performance in this field is based on infrastructure and access criteria. For a long time, the Government focused its effort on the fixed telephony, which led to significant progress since the beginning of the eighties. In 2000 the penetration rate is of 12% of the population.

The situation of the cellular telephony started improving in 2003 after the creation of a new private company. The cellular network was characterized until then by one of the lowest penetration rates among intermediate income countries. In 2002 this rate was 5.1%, while it was at the same time more than 20% in Morocco and Jordan. In 2004 the penetration rate reached 20% despite the high prices, which have not decreased significantly for the last three years (Lahouel and Chemingui, 2005).

The access of the population to the Internet has also improved, reaching 52 users per 1000 inhabitants, which is twice higher than the rates observed in Egypt or Morocco. However, these rates are still much lower than those observed in Eastern Europe or

Table 18: Market access commitments in Tunisia by sector and GATS compared to other countries

	Business Services	Communications Services	Construction and Related Engineering Services	Distribution Services	Educational Services	Environmental Services	Financial Services	Health Related and Social Services	Tourism and Travel Related Services	Recreational, Cultural and Sporting Services	Transport Services	Other Services not Included Elsewhere	Total Commitments
Turkey													9
Morocco													7
Romania													8
Poland													10
Tunisia													3

Source: World Bank (2004).

Eastern Asia. Moreover, Tunisia is still behind in terms of high flow internet access, which is still very expensive. The last indicator used is the number of local hosts for Tunisian websites. This rate is very low in Tunisia (0.35 hosts for 10000 inhabitants), which is three times lower than Morocco.

The slowness of reforms in the communication and information sector is one of the main reasons of the weak progress realized in this field in Tunisia. "Tunisie Télécom", the public operator has still the monopoly of the fixed telephony and is still managed under the supervision of the Ministry of Telecommunications. The granting of a second license to a private cellular telephony company permitted to avoid the shortage of services. However it took more time than the commitment of Tunisia vis-à-vis the WTO agreement on telecommunications in 1997. The improvement of the quality of the services and the reduction of prices needs more competition in the telephony sector. The agency of telecommunications control also needs more independence to play a significant role in the improvement of the functioning of the sector.

4.1.2.2. The Financial services

The Tunisian financial system is dominated by commercial banks, which hold the two thirds of the total financial assets. State intervention is still preponderant since the State owns the three main banks of the country: the "Société Tunisienne de Banques (STB)", the "Banque Nationale Agricole (BNA)" and the "Banque de l'Habitat (BH)". The State holds 46% of banks total capital, which represents a very high share, even if this share decreased by 4% in 2002 when the State transferred its shares in the "Union Internationale des Banques (UIB)" to foreign bank (Société Générale).

Foreign participation in the Tunisian banking system is weak, even in comparison with other MENA countries. It increased recently with the acquisition of the UIB by the French "Société Générale" for an amount of 100 million USD $. The Government has also declared its intention to transfer its shares in the "Banque du Sud" to private investors, but the decision has been delayed. An increased foreign participation of foreign banks is supposed to improve the quality and reduce the cost of banking services.

Since the mid-1990s, significant reforms have been undertaken to restructure the Tunisian banks, which have been characterized by a weak appreciation of the risks associated to their loans, which led to an excessive volume of doubtful loans. The implementation of prudential rules and the improvement of the management capacities helped the Tunisian banks in providing better services and lowering the risks associated to their activity (mainly through increasing the provisions for doubtful loans). While many financial operations are liberalized since the beginning of the 1990s, the central bank of Tunisia still play a dominant role in regulating the financial sector. Banks are still not allowed to diversify their services and are only allowed to supply the services permitted by the central banks, which reduce the degree of dynamism in the financial market and the development of new services.

4.1.2.3. Tourism and travel related sectors

The most significant progress in terms of services liberalization has been realized in tourism and its related transport activities. Foreign hotel companies have been authorized to invest in Tunisia. Their involvement consists either in managing local hotels, acquiring Tunisian hotel units or building new hotels. The low price charter transport has been liberalized through the creation of new local companies and through opening the sector to foreign companies. Despite this declared determination to open the tourism sector to foreign operators, the implementation of great international hostelry chains is too weak and limited to some unities that already exist in Tunisia. Concerning the air transport sector, it is rather a question of rent sharing between the national air company and some private companies, rather than opening the sector to local and foreign private competition.

4.1.3. Export subsidies and exports restriction

Tunisia offers to some exporting activities many kinds of benefits, mainly tax exemptions. The Tunisian authorities argue that they provide similar advantages granted by other countries to attract FDI. Even developed countries offer sometimes many subsidies, especially in some underdeveloped regions. Furthermore and given the fiscal advantages granted to exporting firms, and the stabilization of the real exchange rate for many years (a real depreciation of the Dinar vis-à-vis the Euro) the anti-exporting bias has disappeared in Tunisia. With the tariff dismantling, some even argue that there is anti-local production bias. Tunisia committed to remove the fiscal advantages granted to off-shore companies (exporting more than 80% of their production) in 2007, but this could cause a serious problem, especially given the negative impact of the MFA dismantling. The Government decided recently (March 2006) to tax benefits coming from exports at a uniform 10% rate and benefits coming from domestic sales at a 30% rate (this rate was 35%). This new fiscal reform intended to give a clear picture for the off-shore sector on the future fiscal policy to be implemented starting 2008 when the FTA with the EU is fully operational, still not fully transparent, as the reform will concern only some sectors. The list of this sector is not published yet.

Regarding export restrictions, the Tunisian export regime is still non-conform with GATT Article XI. In this context and through non-automatic export licensing, Tunisia still exerts a control on its exports. The products subjects to export prohibitions include certain agricultural products; minerals; iron, steel, copper and aluminum scrap; coal and petroleum products; chemical elements and isotopes; fertilizers; precious metals and wastes; and several specified elements. Furthermore, Tunisia prohibits occasionally the export of many other agricultural products depending on the domestic production levels.

4.1.4. Intellectual property right protection

Tunisia has the legal requirements for the protection of Intellectual Property Right. Since 2001, Tunisia began a major campaign to improve its IPR enforcement. The motivation behind this effort is not only to comply with its international obligations, but also to promote growth of the local software industry and to help attract new foreign investment. In the local market, pirated software, music, and videos remain readily available, but these items are not exported in any notable volume. Tunisia is a member of the World Intellectual Property Organization (WIPO), the Berne Convention for the Protection of Literary and Artistic Works (copyright), and the Paris Convention of Protection of Industrial Property (patent, trademark, and related industrial property). Registration of foreign patents and trademarks with the National Institute for Standardization and Industrial policy is required. Tunisia's patent and trademark laws are designed to protect only duty-registered owners. In the area of patents, foreign businesses are guaranteed treatment equal to that afforded to Tunisian companies. Copyright protection is the responsibility of a separate government agency, which also represents foreign copyright organizations. Tunisian copyright law has been updated, but its implementation and enforcement have not been consistent with foreign commercial expectations. The Tunisian authorities have pursued IPR protection when foreign companies have made a formal and stringent complaint (World Bank, 2004). But in general, the protection of intellectual property has not benefited of a particular attention from the public authorities despite the change in the Tunisian legislation on this subject.

4.1.5. Competition policy

The Euro-Mediterranean Agreement presents in its 36, 37 and 38th articles the principles governing competition in the Euro-Mediterranean Free Trade Area. These principles are very similar to the competition rules into force within the European Union concerning anti-competitive behavior and public subsidies distorting competition. The Tunisian competition law was enacted in 1991 within the Structural Adjustment program framework. It was amended twice in 1995 (WTO accession and Euro-Tunisian Agreement) and 1999 In our analysis we mainly rely on Lahouel (2003), "The practice of competition policy in Tunisia".. The 1991 law abolished price regulations except those concerning products for which monopolies exist or products suffering from supply shortages. According to the Ministry of International Cooperation, supply and demand forces determine 81% of the products distributed on the Tunisian market. But contrary to what the officials pretend, the Tunisian administration continues to intervene at the level of price fixing, even for the products, which are not subsidized and should observe the rules of the market in the setting of their prices. This touches essentially agricultural products during the periods of limited offer. In fact, through its price control administrations, the government acts by fixing maximum prices at the level of wholesale trade. Nevertheless, in the period of abundant offer the government does not intervene, and lets the market exerts its rules. In fact, the government obliges wholesale traders of agricultural products to apply a maximum price, whereas on the retailing market the prices are almost free. This led to the diversion of farmers towards other forms of marketing, where the prices are more important. This situation has led to the creation of a certain form of rent for the informal wholesale traders that are not subject to control as for the formal wholesale traders. This situation that perverts competition has always been to the detriment of the formal sector of traders. The 1991 law has also forbidden any behavior reducing price transparency and has prohibited any abuse of dominant position or any arrangements affecting competition. However, exclusive arrangements were abolished only with the 1995 amendment. The 1999 allows the Minister of Trade to authorize exclusive arrangements on an exceptional basis. Merger control was introduced by the 1995 amendment. Any concentration that could result in a dominant position has to be agreed by the Minister of Commerce. A firm is supposed to be in a dominant position when it controls more than 30 % of a market and when its total sales exceed 3 million Tunisian Dinars. Finally, contrary to the European competition law, the Tunisian law does not fix rules of control for public subsidies to firms.

On the institutional aspects, an independent competition Council was created in 1995 to replace the competition commission, which was criticized on the ground of its lack of autonomy vis-à-vis the Ministry of Commerce. The competition Council is not as powerful as it is in some countries since it does not take all the decisions regarding competition issues. The administration intervenes massively in the composition of the Council and in it's functioning. Moreover, the Minister of Commerce does not have a legal obligation to consult the council for merger decisions. Concerning exclusive arrangements, the Council has only an advisory role, and the Minister of Commerce is the final decision maker. The 1999 law tried to improve the functioning of the Council and give it some self-initiation role, but under certain circumstances only. Since its creation the Council received 40 complaints, 5 of which from the Minister of Commerce and 32 from firms. While the 5 cases filled by the Minister were found guilty, only one from the 32 resulted in the same outcome.

We can conclude that while competition law exists in Tunisia, it is still burgeoning, mainly due to a lack of such a culture in the country. For example consumer associations never filled any complaints in regard to anti-competitive behavior.

The agreement with the EU does not fix obligations to Tunisia in regard to its competition policies, except if any anti-competitive behavior creates distortions in trade flows between Tunisia and the EU. Until now no complaint has been raised by any of the two partners. In the future, it is expected that Tunisia and the EU reach an agreement concerning the cooperation between their competition authorities. The obligations for the two partners could be:

- To inform the other Tunisian competition Council and the European Commission of any behavior or investigation that could be of interest for the other partner;
- A cooperation on merger controls; and
- A framework defining cooperation between the two authorities.

Overall, the Agreement with the EU and trade liberalization in general have pushed Tunisia to adopt a new modern competition law, but the different agreements do not fix restrictive obligations for Tunisia in this regard. Thus, the improvement of the competition climate needs an involvement from the different stakeholders (firms, consumers associations, etc.) and a commitment from the Government to give more power to the independent competition Council.

4.1.6. Trade facilitation

Trade facilitation can be defined as the set of measures permitting to reduce the complexity and the costs of trade processes. The main objective is to reduce the bureaucratic and administrative constraints that exchanged products face at the borders. Indeed, these complex procedures could in some cases replace tariffs or at least reduce the effects of tariff liberalization. Overall, trade facilitations are covered by many agreements under the WTO. The main agreements related to trade facilitations are the following:

- Article V of GATT 1994 (Free of Transit).
- Article VIII of GATT 1994 (Formalities related to import and export).
- Article X of GATT 1994 (Publication and application of rules related to trade).
- Agreement on custom value.
- Agreement on rules of origin.
- Agreement on inspection before expedition.
- Agreement on imports licenses.
- Agreement on technical obstacles for trade.
- Agreement on sanitary measures.
- Agreement on intellectual property rights related to trade, particularly measures related to controls in border.

Concerning the partnership agreement with the European Union and as the majority of the other Euro-Med agreements, it contains a special provisions related to trade facilitation. In this agreement, the objective of custom cooperation, as defined in the agreement, is to ensure a free movement of goods and the respect of trade rules. Thus, the agreement stipulates a simplification of customs clearance procedures, the introduction of a unified administrative document (DAU) similar to the one used in the European Union, the possibility of linking the transit systems in Tunisia and the European Union, information exchanges among institutions and professional training, and a technical assistance to Tunisia when requested and justified.

4.1.6.1. Standards

The Euro-Tunisian agreement stipulates in its 51st article that Tunisia will rely on the European rules in terms of standards, quality management and certification and evaluation of conformity. Tunisia commits to improve its certification laboratories, which will allow a mutual recognition of conformity evaluation. Finally Tunisia will create a framework in charge of intellectual property. The Institut National de Normalization et de la Propriété Intellectuelle (INNORPI) is the Tunisian institution in charge of standards, conformity, marks and certification. It has recently become a partner member of the European Committee of Standardization (CEN). Products imported in Tunisia are subject to a technical control of conformity to national standards. If these products fall under the obligatory certification rule, they should have a national mark of conformity, which the INNORPI is the only institution able to provide. According to some stakeholders, this is an impediment to free trade.

The Euro-Mediterranean Conference of Palermo (July 2003) has set up a work plan composed of six tasks, which should allow the Tunisian legislation, and procedures to conform to those of the EU. The first step has been to identify priority sectors (like electrical industries) and analyze the current standards in these sectors in Tunisia. The next step would be to compare with the European rules in these sectors, then set up a framework to implement them in Tunisia. The EU and bilateral European donors finance a significant share of this modernization program. In addition, and as a member of the WTO, Tunisia has committed to implement the Agreements on Sanitary and Phytosanitary Measures (SPS) and Technical Barriers to Trade (TBT). Thus Tunisia has to use international standards as a basis for its national standards to remove any technical barriers to trade. The consequence is that INNORPI has to collaborate closely with the International Organization of Standardization (ISO) when elaborating a new standard and take into account any observation of partner countries on the new standard.

In the face of these commitments, Tunisia is far from having adopted norms, analogous to the ones practiced by the European Union. Very often, we attend to two regimes in Tunisia, the off-shore regime which undergoes a quiet rapid conformity control and without impediment to the economic activity, whereas the on-shore sector undergoes a quiet long and complicated process of control and certification. Indeed, the enormous difference in the mechanisms of certification and conformity control between the two sectors shows well that there is an under-developed sector, and continues to weigh down the enterprises.

4.1.6.2. Custom procedures

Import and export procedures can be considered as significant non-tariff barriers to trade. Their harmonization and simplification is one of the objectives of the WTO. According to a US State Department report, Tunisian customs procedures are complex and burdensome. The association agreement with the EU and the accession to the WTO constituted strong incentives to reform these procedures.

One of the most sensitive aspects is the definition of the value of the imported products in Tunisia. Tunisia is committed to adopt the transactional value not later than 5 years after its accession to the WTO, but this reform was delayed and only adopted in 2001. The authorities can no longer overrule an evaluation made under the requirements of the law, unless there is an evidence of fraud. A monitoring commission is in charge of the implementation of the reform. Moreover, with the help of the World Organization of Customs, Tunisia has created a research centre and is developing its expertise in terms of customs evaluation.

In addition, Tunisia developed the "Liasse Unique" project in 1997 to reduce the delays in releasing the imported goods from a current average of 7-20 days to 3-7 days by 2009. This project entered into force in October 2000. The first step consisted in the standardization of the documents and the simplification of foreign trade processes. The second step that was initiated in April 2002, consisted in the digitalization of foreign trade documents and the implementation of the virtual single window. The different trade operators are connected to an automatic integrated system (SINDA, Système Informatique de Dédouanement Automatique), which allows them to follow the progress of the custom procedures. In what follow, we present more specifically the different reforms implemented by Tunisia concerning the custom procedures as part of its commitments in the RTA signed with the European Union and according the WTO agreements.

Under the free trade agreement with the European Union:

As stipulated in the association agreement (Article 59), customs cooperation between Tunisia and the European Union concerns:

- The simplification of the checks and customs procedures; and
- The application of the unique administrative document and the instauration of a link between the transit systems of the European community and Tunisia.

The "Liasse Unique" for import and exports of goods was instituted in Tunisia in December 1997. It consists of a body of necessary documents to accomplish the foreign trade formalities, the exchanges formalities, and the customs and transport formalities. These documents are established in accordance with the national standards and/or international norms related to the administrative and commercial documents. It is composed by a special document for foreign trade, a detailed declaration of goods and by a document related to the technical control, if it takes place. In January 2001, a new model of the automated custom declaration in accordance with the international norms ISO 6422 (UN-K) and ISO 7372 (UN-TDET) was introduced. This new model necessitated, besides, a new computer application and change of the configuration of the screens of data manipulation as well as the model of printing of the declaration.

The customs clearance in Tunisia is carried out using the Computer System of Automated Customs clearance (SINDA) of the General Direction of the Customs and this in the conditions fixed by the signed conventions between the customs administration and the users of the system.

In the framework of the progressive automation of the documents constituting the "Liasse Unique", an integrated system of automated treatment of the trade formalities linking up all the users of the "liasse unique" was implemented. It is a matter of a system that links up the information systems of the different operators in the foreign trade formalities, which allow the exchange of data between these systems in order to accomplish the given formalities through a server known as "the central server of the liasse unique". In the framework of the integrated system of automated treatment of the foreign trade formalities, the customs administration can allow the substitution of the documents constituting the "Liasse Unique" by electronic messages in accordance with the conditions fixed by the convention between the customs administration and the supplier of telecommunications services. With the intention to renovate and to improve the functioning of the system SINDA, an application allowing the automatic selection of message with risk was developed and implemented. The customs reviewed its system: SINDA 2000. The juridical aspects as the recognition of electronic signature were ready. The provisions of this new system are the automation of visits, gains in time, reduction of costs, the decongestion of the ports, avoids inspections, the anticipation of declaration and statistics.

Under the WTO:

The Article 26 of Customs' Code related to the custom value for imported goods was modified and completed by the law n° 2001-92 and this in achievement of the Tunisian engagements in the framework of WTO agreements. While the Article 26 stipulates that the custom value of imported goods is «the normal price of the good, which means the renowned price to be able to be done for this good, at the time of a sale carried out in conditions of full and perfect competition, between a buyer and an independent supplier…". This Article is based on the WTO agreement on customs value. Such as stipulates the Article 20 of the association agreement with the European Union, Tunisia can differ the application of these disposals for a period that will not exceed five years starting from the first day where the WTO agreement entered in force. A grace delay has, nevertheless, been granted to Tunisia. This delay took its end in September 28, 2001. Concretely, the agreement entered in force in August 2002. Thus, the entry in force of the new custom law and the adoption of a new system of custom evaluation had the following consequences:

- The abandon of the former evaluation method based on the value definition of Brussels (D.V.B); and
- The application from September 29, 2001 of the new evaluation methods.

In order to meet the Tunisian commitments vis-à-vis of WTO agreement on custom value, and notably the right of response and to re-evaluate granted to the importers, the customs administration put at the disposal of the importers a document-allowing follow-up on the litigations concerning the customs value of the imported goods. This document is used in the following cases:

- The non-acceptance by the custom service of the declared value.
- The transmission of doubts or of disputes about the value declared by the importer.
- When the importer is asked to provide explanations and/or supplementary documents.

A Commission to follow up and supervise the implantation of work program related to the application of the agreement on the customs valuation and the Tunisian engagements in this domain, was created within the General Direction of the Customs.

4.1.6.3. The tradevet information system

TradeNet is an information system created in 2000 to foster the exchange of information between the different trade actors (customs, banks, importers, etc.), but also to ensure training and assistance to the different stakeholders. However, many problems did not permit an efficient use of this system.

To encourage the use of the system, the authorities decided to lower the customs costs and shorten the customs delays for the operations using TradeNet. However, the private operators have still not enough confidence in this system.

5. Compliance between the RTAs signed by Tunisia and WTO disciplines

The importance given to the WTO compatibility of regional trading arrangements signed by Tunisia derives from various reasons. First, as WTO member, Tunisia is under the obligation to ensure the conformity of its trade policy with WTO obligations. For the European Union, the need for compatibility of all its RTAs signed with other countries is justified by the multiple dispute settlements engaging the EU during the last years, which made the EU very sensitive to any additional legal challenges that can be made by other GATT/WTO members on its trade policy. Second, the creation of WTO in 1995 with its rules-based nature, together with an enhanced dispute settlement mechanism, further increased the need for compatibility with the multilateral trading regimes. Consequently, determining whether the RTAs signed by Tunisia have favored or conflicted with its insertion in the global economy and then in the multilateral trading system is not an easy task. In order to answer this question, the analysis should be conducted stimulatingly into two levels. A general discussion on the compliance between regional trade agreements and WTO rules on one hand, and a specific analysis on the content of each RTA signed by Tunisia and its compliance with the WTO rules on the other hand.

Regional trade arrangements could introduce at the same time negative and positive effects regarding the multilateral trading system. According to Matthews (2003), the most common drawback of regional trade arrangements can be explained by the potential of these agreements to fragment the multilateral trading system (MTS) into a number of closed, competing blocs. Furthermore, regionalism also has a tendency to beget regionalism as outsiders attempt to minimize the costs of trade diversion by becoming insiders. This has given rise to the new phenomenon of overlapping RTAs, which increase their complexity and their relationship with the MTS. One highlighted issue is the negative effects on trade of differing rules of origin, and the way in which rules of origin can be designed to have a protectionist impact. There is also the danger that as countries pursuing deeper integration within RTAs, dispute settlement provisions contained in the 'new generation' RTAs could build jurisprudence conflicting with that of the WTO. At the same time, many positive effects are often associated with RTAs regarding the MTS. These positive aspects of RTAs are based on a number of arguments that can be classified under the following:

- By moving at a faster pace than WTO rules, while sharing its goals, RTAs represent a way of strengthening the latter.
- Smaller regional groupings may be more effective in tackling new areas such as services, investment, intellectual property protection, cooperation in competition policy, technical standards and government procurement compared to multilateral rule-making. By acting as laboratories to try out alternative rules and strategies to encompass these issues, it is argued that they can ease the reaching of agreements on these issues at the multilateral levels.
- Despite the fears of trade diversion, the empirical evidence suggests that trade-creating effects dominate in major RTAs thus enhancing world welfare.
- RTAs have had a positive effect by facilitating the integration of developing countries into the world economy.

5.1. RTAs and WTO rules

In what follows, we assess the compliance between RTAs signed by Tunisia and WTO rules. WTO member countries are allowed to conclude RTAs in the form of free trade areas or customs unions as an exception to the fundamental principle of non-discrimination set out in the most-favored-nation provision of Article I. Conditions to be met for trade in goods in RTAs involving developed countries are set out in GATT Article XXIV. For trade in services, the conclusion of RTAs (referred to in GATS as economic integration agreements) is governed by GATS Article V. Preferential trade arrangements on goods between developing country members are regulated by an "Enabling Clause" dating from 1979. Non-reciprocal preferential agreements involving selected developing and developed countries require WTO members to seek a waiver from WTO rules.

The FTA between Tunisia and the European Union on one side, and between Tunisia and the EFTA members are considered under the WTO Article XXIV of GATT 1994. All the remaining RTAs signed by Tunisia, which comprises only developing countries, are under the purview of the Enabling Clause. This is the case for the FTA signed with Turkey, the Agadir process, GAFTA, and the other agreements with other Maghreb countries (Algeria, Libya, and Mauritania). Trade in services is governed under the GATS Article 5.

The requirements of the Enabling Clause are significantly less stringent in both substantive and procedural terms. The only substantive requirement is that the developing country trade agreements shall be designed to facilitate and promote the trade of members, and not to raise barriers or creates undue difficulties for the trade of third countries, and that they shall not constitute an impediment to the reduction or elimination of tariffs and other restrictions to trade on an MFN basis. The procedural requirement involves notification to the Committee on Trade and Development under the WTO when they are created, modified or withdrawn. These provisions clearly offer more flexibility than those of GATT Article XXIV; there is no corresponding requirements as in GATT Article XXIV on "substantially all the trade" or time limitations for interim agreements. Among the requirements of the WTO rules on RTAs, the two more restrictive are “the substantial coverage requirement” and “the reasonable time requirement”.

*** The substantial coverage requirement:**

Regarding the RTAs signed by Tunisia, only two among them (the FTA signed with the EU on one hand and the FTA signed the EFTA member countries on the other hand) have to meet the substantial coverage requirement. The EU-Med Association Agreement sets out an explicit understanding of this requirement. The Agreement has interpreted ‘substantially all’ as meaning an average of 90% of the items currently traded between the two partners. The averaging procedure is used to permit an asymmetrical agreement under which the requirements on Mediterranean countries are less onerous than those on the EU. Regarding the agreement signed between Tunisian and individual countries of EFTA, it defines "substantially all" also as meaning an average of 90% of the items currently traded between the two partners.

Article 5:1 of the GATS defines the rules regarding the implementation of RTAs including trade in services. It stipulates that an agreement should have substantial sectoral coverage in terms of the number of sectors, the volume of trade affected and the modes of supply. Specifically, to meet this condition, agreements should not provide for a priori exclusion of any mode of supply. All the agreements signed by Tunisia with the EU, the EFTA, Turkey, and The Agadir Process refer to GATS Article 5 regarding trade in services.. The problem remains only with GAFTA, which while calling for applying international rules in the trade of services, many Arab countries members in GAFTA still not yet members in the WTO.

*** The reasonable time requirement. Article XXIV:**

5c requires that any plan to form a RTA must show that it will be completed within a reasonable length of time. In the 1994 Understanding, this is defined as not exceeding 10 years except in exceptional cases. The Free Trade Agreement signed between Tunisia and the EFTA country members envisages the creation of FTA over a short period (4 years) and it's totally compatible with WTO rules while the FTA signed between Tunisia and the EU is being implemented progressively over a 12 years period. This is due to the fact that some flexibility exists in the reasonable time requirement in the provision that in "exceptional cases" the transition period could exceed 10 years. However, the GATS do not contain an equivalent provision with respect to a regional agreement covering trade in services. With respect to trade in services, where the Enabling Clause does not apply, Article 5:3 of the GATS provides special and differential treatment for developing countries in two dimensions. First, where developing countries are party to an RTA involving services, flexibility can be shown, particularly with respect to the requirement that substantially all discrimination must be removed in the service sectors covered by the RTA, in accordance with the level of development of the countries concerned, both overall and in individual sectors and sub-sectors. Second, in the case of RTAs involving only developing countries, more favorable treatment may be granted to juridical persons owned or controlled by natural persons of the parties to such an agreement.

5.2. WTO and inclusion of agricultural products in RTAs

Three obvious areas related to the interpretation of the substantial trade coverage requirement when forming a RTA emerge: the methodology used to aggregate Members' market access, domestic support and export subsidy commitments under the Agreement on Agriculture. These areas mainly introduce problems of inconsistency between individual RTA and WTO rules governing agricultural trade. For the case of RTAs, signed by Tunisia, the majority of them excluded significant parts of agricultural products from the free trade arrangement. More often, most of the agricultural commodities or food products were classified as "sensitive" and subject to reduced concessions, longer transition periods or excluded altogether from the scope of RTAs. While Agadir agreement has removed nearly all agricultural trade barriers among the members, commodity exceptions remain in their trade liberalization scheme. Agriculture is also included in the FTA between Tunisia and EFTA with a special treatment for the agricultural products. The FTA with the EU while it includes some improvement for Tunisian and European agricultural products to their respective markets, many limitations remain applied. Although the economic logic of the "substantially all trade" requirement was to prevent the creation of bulwarks of protectionism, there may be an economic rationale to leaving agricultural trade out of RTAs. In the case of Tunisian trade with the European Union, many agricultural sectors are uncompetitive as result of the European policy (Common Agricultural Policy), which provides domestic support, and export subsidies for its agricultural sectors. Their exclusion from an RTA may help to prevent the dumping effect. At the same time, increasing access for Tunisian agricultural products to the European market will increase benefits to the Tunisian economy, as Tunisian products were not subsidized. In this respect, simulation results reported by Chemingui and Dessus (2001) indicate that more access for Tunisian agricultural exports to the European market will improve the welfare effect for Tunisia.

5.3. Some issues on RTAs conformity with the current WTO rules and the necessity of further clarification under the Doha round

Many issues are still not clarified under the current WTO rules regarding the establishment of RTAs. These issues can be classified in the following two observations:

• Many RTAs make provision for the harmonization of rules or mutual recognition of testing procedures, there is a danger that the rules developed may be inconsistent with those in the WTO multilateral rules. With more RTAs now incorporating dispute settlement provisions, this could lead to different jurisprudence being developed around similar issues. These developments could lead to problems with forum shopping to settle disputes, as well as raising the question whether an RTA affects a WTO Member's existing rights. Some RTAs make specific provision that RTA rules should be consistent with the relevant WTO provisions in an attempt to minimize this problem.

• Some flexibility is available in the existing provisions of GATT Article XXIV. The current articulation of the article allows some degree of flexibility for an RTA to be WTO compatible in terms of the intra-group liberalization of trade and the level of external trade barriers. The "substantially-all-the-trade" and "not-on-the-whole-higher-or-more-restrictive" requirements allow by virtue of their qualification in non-specific terms ("substantially" and "on-the-whole"), for parties to an RTA not to dismantle barriers to all trade among them, to maintain certain restrictive non-tariff measures, or to raise the level of protection against third countries on certain products provided that those measures do not constitute an infringement of other WTO provisions. In addition, flexibility is also observed in the reasonable time for establishing a RTA. These flexibilities are seen to be de facto tolerated owing to the interpretative ambiguity inherent in key benchmark provisions of Article XXIV of GATT 1994, as well as the resulting inconclusive nature of examination of compatibility of notified RTAs by the Committee on Regional Trade Agreements. Indeed, very few RTAs have liberalized completely their internal trade, measured either by trade volume, product sector or product items. Moreover, the issue of trade/product coverage has never been subject directly to dispute under settlement procedures. In this context and under the current WTO negotiations, clarifications have to be introduced on these rules in order to avoid this flexibility in interpreting these rules, which can lead to many problems among countries members to WTO on the basis of their specific interests. Thus, any revisions of WTO rules related to RTAs will be beneficial to Tunisia. The main advantage is related to the inclusion of agricultural sector. In fact, any new rules regarding RTAs have to permit them the flexibility to form the regional integration arrangements they desire. Under the Enabling Clause, agreements exclusively between developing countries must meet lower requirements for approval. However, as developing countries opt for agreements favoring wider trade integration, there is a trend for these agreements to be notified under Article XXIV. Thus any changes to the rules under this Article, such as a requirement that agricultural trade cannot be excluded from RTAs, will also have implications for developing countries. With the growing number of North-South RTAs, and given that agriculture continues to be highly protected in the North, it would appear to be to the advantage of developing countries to seek a tightening of the 'substantial coverage' requirement, even though this would then also apply to purely developing country RTAs if they were notified under Article XXIV in the future.

6. Sensitive sectors: The case of textiles and clothing sector

It is well-obvious that the different trade commitments taken by Tunisia at the multilateral as well as at the bilateral levels will have important direct and indirect effects on the Tunisian economy. All the same, these effects will depend on the sectors. Thus, the textile sector seems the most affected by these agreements and by the changes, witnessed at the level of the international trade environment. Besides, this sector as much as the sectors, dominated by the off-shore firms, will also be affected by the expected reform of the system of fiscal incentives designed for the off-shore companies. In this section, we shall limit ourselves to the description of the challenges imposed by the trade agreements, signed by Tunisia, on the textile and clothing sector and the offered possibilities to reduce the loss of preference on the European market. We shall also analyze the challenges imposed by the necessity to reform the system of fiscal incentives, reserved to the exporting enterprises. The evaluation of the quantitative effects of these changes and the possible adjustment policies will not be covered in this section.

The textiles, clothing and leather sector in Tunisia comprises more than 2000 firms mainly producing made-up goods, hosiery and lingerie, and footwear. This sector is the country's leading employer, accounts for more than 40% of total merchandise exports and over 20% of the total imports. Nearly 90% of the jobs in the sector are provided by wholly exporting enterprises. Most exporters are specialized in subcontracting and processing imported inputs. The majority of larger enterprises are organized under the "wholly exporting/non-resident" regime. From 1976 onwards, the sector developed as a result of exports to the European Union under preferential tariff quotas within the context of the Multifiber Arrangement on one side, and under the fiscal advantages granted initially under the 72's law and reinforced later under the different investment codes and their incentives offered to exporting enterprises known as "off-shore" sector. Thus, Tunisia became the fourth largest supplier of the EU, which was absorbing over 90% of its fabric and clothing exports. According to some estimates, one third of the 250,000 jobs that existed in this industry in 2002 are likely to be lost as a result of the dismantling of the import quotas for these products – a process which began in January 1995 and was completed by the end of 2004 – together with increased competition, mainly from countries like China.

The slowdown in the growth of exports began in 1995, and in 2005 clothing exports growth was among the lowest in Tunisian industry. The slowdown reflects the heavy competitive pressure to which Tunisian exporters have been exposed since the progressive opening up of the European markets. Tunisia now has an average preferential tariff margin of only 8% on the European markets. Asian competition has recently been joined by that from the new member countries of the European Union. Import competition is also increasing. Under the Association Agreement with the EU, the customs duties on the sector's products are steadily falling, with the prospect of their total removal by 2008. However, customs duties will not be reduced on carpets, lace, floor cloths and worn clothing (covered by Annex 6 to the Agreement).

In addition to the needs of attraction of new foreign investors in the sector and the improvement in the business environment, such as the liberalization of productive infrastructure services, the survival of the textiles and clothing sector depends on the contents of the different trade agreements signed by Tunisia and the policies that should be introduced by Tunisia to meet it's different commitments under these agreements. In the actual state of agreements, the applied rules of origin seem to be a central element in the definition of the development perspectives of the sector. Concerning the partnership agreement between Tunisia and the EU, the Protocol 4 of the Agreement fixes preferential rules of origin, governing trade relationships between the two partners. Theses rules concern bilateral cumulation between Tunisia and the EU, diagonal cumulation between the EU, Tunisia, Morocco and Algeria and total cumulation between these four partners. However, due to an absence of harmonization of rules of origin between these four partners, the only element that Tunisia takes advantage of is bilateral cumulation. In July 2003, Tunisia has approved the new protocol, which extends the pan-European system of cumulation to the Mediterranean partners by 2010. The next step would be to amend the initial protocol of the Euro-Med Agreement to introduce diagonal cumulation. This reform would enhance intra-regional trade between the Mediterranean partners. However it would impose a constraint of a no drawback rule to Tunisian importers. This rule means that tariff duties levied on intermediate inputs imported by Tunisian firms and incorporated in final products exported to EU partners can not be reimbursed. This law of no drawback constitutes a hindrance for the competitiveness of Tunisian firms since these firms will bear higher costs than their European competitors who pay lower tariff duties. Tunisia and the EU started negotiations about the no drawback rule. Tunisia proposed to align its tariffs on the intermediate inputs used for exports on European levels. The EU refused this proposal and stated that it would only accept a moderate reduction. The final agreement was to apply the no drawback rule for diagonal cumulation and the total drawback rule for bilateral cumulation with the EU. When the intermediate inputs will be imported from the EU, they will obtain a EUR.1 certificate of origin and when they will originate from a country from the diagonal cumulation zone they will receive a EURMED1 certificate. In addition, the accession to the pan-European cumulation system is subordinated to the implementation of a free trade agreement with the different partners. Tunisia has already signed free trade agreements with Morocco, Egypt and Jordan (The Agadir Agreements) and more recently a free trade agreement with Turkey (September 2004). This last agreement could be very useful for Tunisian clothing producers since Turkey is a significant producer of competitive textile inputs. Thus, the agreement signed with Turkey is seen as a way to enhance the competitiveness of the Tunisian products on the European Markets. But, according the rules of the agreement (Protocol 4), Tunisian could not enjoy the benefits of the pan-European cumulation of origins with raw materials imported from Turkey until this protocol will be amended. However, the Tunisia-EU association council adopted on the 12th of July 2005 a decision, bearing on a temporary derogation from the rules of origin, relative to certain textile products (Trousers, Shirts, feminine laundry, Swimming suits, Skirts…), and provided for in the protocol N4, relative to the definition of the products of origin and to the administrative cooperation methods, annexed to the association agreement between Tunisia and the EU. This derogation covers a period of only one year. According to the provisions of this decision, the Tunisian enterprises can import tissues of a Turkish origin, coming from turkey or one of the member-states of the EU, with a view to their transformation in Tunisia, and export the finished products to the European Union with the exoneration of customs duties and the equivalent-effect taxes. For the textile and clothing sector in Tunisia, the extension of this derogation, granted for one year, and the amendment of the Protocol N4 in order for Tunisia to profit fully of the Pan-European system of cumulation of origins, seems crucial. It is also important to include the maximum of products, exported by Tunisia in this system.

For the other trade agreements, they do not represent an obstacle for Tunisia, for three main reasons. The first is that the Tunisian exports to these countries are already very limited. The second is that the rules of origin do not represent a real obstacle, owing to their relative leniency in comparison with the applied rules by the EU. The third reason is that these agreements, especially those signed with Turkey, the EFTA countries and the Agadir process, open important perspectives for the development of the sector, taking advantages from the cumulation of origins granted to the southern Mediterranean countries.

In addition to the constraints and opportunities raised by the system of the cumulation of origins as it is defined in the pan-European system, Tunisia is confronted to another major problem, which up to now blocks the implementation of the Agadir agreement. In fact, like Jordan, Morocco requires that Tunisia reform its off-shore firm support system before the ratification of the Agadir agreement. According to them, the Tunisian system of incentives for investment, granted to the exporting firms, especially the non-resident among them creates a distortion in trade in favor of Tunisia.

However, given the importance of this sector in terms of employment and exports in the Tunisian economy, the upholding of investments and their development in this sector will depend on the reform of the fiscal policy and the system of incentives that Tunisia must implement as part of the preparation of the final implementation of the different free trade agreements it already signed. The current reform (see above) has reduced the distortions between the off-shore sector and the on-shore system, but has not removed them. It has thus not followed a recent proposal by the IMF consists of reducing the rate of taxes on the benefits of the enterprises in order to mitigate shock that the off-shore sector must undergo. However, this alternative raises an additional problem of fiscal compensation in that the reduction rate of the taxes on benefits must be quite important to be able to incite the off-shore companies to stay and increase their investments in Tunisia. In addition to the fiscal harmonization problem between the off-shore sector and the on-shore sector, there is also the problem linked to customs clearance procedures, specific to the off-shore sector. Henceforth, the on-shore sector must also have the similar customs advantages that off-shore companies have. The issue has not been raised yet by the public authorities, and the Tunisian customs system does not seem ready to offer the same services, specific to the off-shore sector, to the rest of the economy.

The stakes and challenges confronted by the textile sector in general and the off-shore sector in particular are multiple, and consequently need the establishment of economic policies, susceptible of ensuring a continuous attraction of the Tunisian economy to foreign investors. The analysis of these stakes and challenges especially for this sector needs a specific effort that is beyond the scope of this report. Indeed analyzing the different options in terms of the fiscal policies to be implemented in the context of establishing the free-trade area with the EU and their effects on the textile sector needs for itself an in-depth evaluation.

A first assessment by the World Bank (2006) of the post-MFA phase out indicates that Tunisia's share in the EU market of textile products declined by 5.6% from January 2005 to September 2005 compared to the same period in 2004. This is due to the dramatic increase in Chinese exports (45%), Indian exports (16%) and a good performance of

Turkey (+3.2%). The decline of the Tunisian market share would have been sharper if the EU would not have reached an agreement with China in June 2005, which manages Chinese apparel exports to the EU until end 2007 (the EU would have otherwise used the textile specific safeguard measures). The agreement imposed on ten categories of products (among 35 liberalized) fixes the rates of growth of Chinese exports between 8 and 12.5%, which is higher than the 7.5%, which the special safeguard clause would have allowed the EU to impose. However, this means that at the end of 2008, when this special safeguard clause will not be allowed anymore by the WTO, the Tunisian apparel sector will face another shock.

7. Conclusion

To a recent date, Tunisia has benefited from favorable international conditions, due notably to the restrictions imposed, by the developed countries, on the imports of textile and clothing products coming from very competitive countries with very low wages and integrated supply chains. Tunisia has also benefited from the domestic incentives for exports of manufactured products, which has largely contributed to the increase of exports, employment and the reduction of poverty.

Having put stakes essentially on a single sector as a vector of industrial development, Tunisia is facing today a big challenge, namely the liberalization of international trade in general and of textile and clothing in particular. With globalization, international competition has become tougher and keeps on growing, which makes the competitiveness deficiencies more obvious than they used to be in the few previous years.

In order to promote exports, Tunisia has essentially relied during many years on the fiscal advantages, which have been extremely generous in comparison with other countries. The customs procedures applied to its off-shore firms have also been less heavy. However, the non-exporting or partially exporting enterprises have continued to suffer from heavy administrative procedures, namely customs clearances procedures, and from higher tariff rates and other non-tariffs restrictions. The consequence has been the development of an outward oriented and performing sector, exerting few spillover effects on the rest of the economy and the domestic sector, which has been developed under a highly-protective regime. This discriminatory treatment between off-shore and on-shore enterprises as well as the high protection of the local market has thus resulted in the dual development of two sectors, an off-shore sector, supplied with imported intermediary products, which is scarcely integrated in the Tunisian economy, and a second inefficient sector, too weak to resist foreign competition. The technological evolution of Tunisian exports has been too weak and slow mainly due to the concentration of the trade and fiscal policy on the fiscal advantages, only rewarding exports without encouraging the insertion of the off-shore enterprises in the Tunisian economy and technological transfer, to the extent that the kind of qualifications, required by the off-shore enterprises has slightly evolved compared with what used to be required three decades ago, when the policy of promoting enterprises was launched.

Despite its undeniable contribution to growth and employment, the off-shore sector still functions, after many decades, as an enclave in the Tunisian economy. The tight protection granted to the on-shore sector, which lasted too long and the institutional obstacles endured by this sector have hampered its efficiency and hindered a better articulation between the two sectors. This situation is being remedied by the ongoing customs dismantlement within the framework of the Association Agreement with the EU, but as it is demonstrated in the present analysis, Tunisia has a long way to go in order to fulfill its insertion in the world economy, both at the level of the trade of goods and the trade of services, which, besides the fact that they can bring an important direct contribution to growth and employment, conditioning at a large scale the competitiveness of the economy as a whole.

Our analysis has shown that the commitment of Tunisia in the trade liberalization process has rather been an obligation in order to conserve the trade preference that it enjoys on the European market. Indeed, the different free trade agreements that Tunisia has signed with the other countries of the region (free-trade agreements with the EFTA countries, Turkey, and the member-states of the Agadir process) have been motivated by the advantages, granted by the EU to this type of integration, especially the cumulation of the rules of origin. Moreover, the different trade commitments of Tunisia have been either implemented belatedly in terms of the calendar that is fixed, or diverted by practices that must no longer exist. It is within this framework that the opening of the Tunisian market of services has been postponed successively and the opening has only been partial and subject to heavy rules. Even the dismantlement on industrial products coming from the EU, has not had the expected effect on the diversification of products as well as the decrease of the consumption prices on the Tunisian market. In fact, the practices, nonconforming to the Tunisian regulation in terms of the determination of the customs value, remain applied despite the adopted law in 2001 on the definition of the customs value. The introduction of the tax on consumption on a large scale of products and the successive revisions of the VAT rates has also reduced the expected effect of free trade. In fact, we are in the presence of a dilemma, rather specific to Tunisia. On the one hand, an economy, which according to the texts and the commitments is liberal, but in real terms it, is an economy that remains highly protected and regulated.

8. References

Abbate (2002). « L'integration de la Tunisie dans l'economie mondiale : Opportunites et defis », UNCTAD/EDM/Misc. 198, United Nations, Geneva.

Arab League (2004). "The Global Survey Report: Study and Analysis of NTBs in Arab Countries", Cairo (in Arabic).

Chemingui, M.A., R. Safadi, and X. Diao (2005): "RTAs: Lessons of Experience for Kuwait", final report submitted to the Ministry of Planning in Kuwait.

Chemingui, M.A. and S. Dessus. 2001. "The liberalization of Tunisian Agricultural and the European Union: A Prospective Analysis". In S. Dessus, J. Devlin and R. Safadi (eds.), *Towards Arab and Euro-Med Regional Integration*, OECD Development Centre Seminars, Paris.

IEQ (2003). "Impact du Dementelement Tarifaire sur les Echanges Exterieurs", in *Les Cahiers de l'IEQ*, No17, Tunis

IEQ (2002). « Protection effective des activités économiques, Evolution et perspectives (2003-2008) », in *Les Cahiers de l'IEQ*, No.16, Tunis.

Jbili, A. and K. Enders (1996). "The Association Agreement Between Tunisia and the European Union", *Finances and Development*, September 1996, IMF, Washington D.C.

Lahouel, M.H. and M.A. Chemingui (2005). *Tunisian Profile: Trade Policy*, Femise, Institut de la Méditerranée and ERF, 2005, forthcoming.

Lahouel (2003), "The Practice of Competition Policy in Tunisia", unpublished.

Marouanil, M.A., (2004), « Effets de l'Accord d'association avec l'Union européenne et du démantèlement de l'Accord Multifibres sur l'emploi en Tunisie : une analyse en équilibre général intertemporel», *DIAL Working Paper* DT/2004/01, Paris.

Matthews, A. (2003). *"Regional Integration and Food Security in Developing Countries"*. Food and Agriculture Organization of the United Nations, Rome.

Onguglo, B. and T. Ito (2003). "How to make EPAs WTO Compatible? Reforming the Rules on Regional Trade Agreements", *ECDPM Discussion paper* 40, Maastricht: ECDPM.

Saddem, A. (2001). "How Tunisia Is Meeting the Challenges of Globalization", *Finances and Development*, December 2001, Volume 38, Number 4, IMF, Washington D.C..

World Bank (2004). "Republic of Tunisia: Making Deeper Trade Integration Work for Growth and Jobs", *Development Policy Review*, Report No.29847-TN, Washington D.C.

World Bank (2006). *Morocco, Tunisia, Egypt and Jordan after the End of the Multi-Fiber Agreement: Challenges and Prospects*, mimeo.