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A MEDIUM-TERM TRADE & INVESTMENT STRATEGY FOR USAID/TUNISIA

FINAL REPORT

Bureau for Private Enterprise
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Preface

The following study is designed to provide USAID/Tunis with a medium-term strategy with which to orient and begin the design process of a medium-term trade and investment program. In addition to identifying the broad areas in which AID should concentrate its activities based on a detailed assessment of Tunisia's trade and investment constraints and priorities, the paper provides some preliminary ideas on specific program objectives and modes of implementation. Before any specific program can be designed, a thorough assessment of local institutions capacities must be conducted.

This study was conducted by a team of economists consisting of Mr. Frank Nieder, Senior International Economist of SRI International, who was the chief of party, Mr. Ezzeddine Larbi, Director of Studies of IFID (Institut de Financement du Developpement du Maghreb Arabe), and Mr. Rashed Bouaziz of IFID and the Universite de Tunis.

The information in the study was compiled from a broad range of written sources, including official reports of AID, World Bank, the EEC, and Tunisian government agencies, as well as academic papers and current articles from business journals and local newspapers. (See attached bibliography in Annex IV.) In addition, numerous interviews were conducted in Washington DC and in Tunisia. (See attached list and resume of the interviews in Annexes II and III.) The study was conducted over a period of three weeks starting in early March 1990. Mr. Nieder was in Tunisia from 3/5/90 to 3/23/90.

The study team would like to thank AID personnel, especially Ms. Monica McKnight and Mr. Rashed Nafti for their gracious assistance throughout the period of the study. Mr. Nieder would also like to thank the IFID staff for their assistance during his stay in Tunisia.

Table of Contents

A Medium-Term Trade and Investment Program Strategy

I. EXECUTIVE SUMMARY

An AID Trade and Investment Program should continue to play a vital part in AID's overall country program. Since late 1986, Tunisia has consistently been making the politically difficult economic policy changes to reorient its formerly import-substitution based economy into a market-based outward oriented one. The implementation of economic policies that create market-based incentives that are competitive with other national economies is the most important element of a trade and investment promotion strategy. Since Tunisia is working to create this economic climate, it is likely that the country should be successful in achieving its trade and investment objectives. Similarly, with continued progress in implementing appropriate economic reforms, it is more likely that AID's assistance to promote trade and investment will be effective.

Tunisia has already implemented policy reforms to ensure that the three minimum conditions for successful exporting are in place. They include: (1) the maintenance of a competitive exchange rate; (2) ensured access for exporters to inputs at international prices -- achieved through a series of special liberalized import and foreign exchange regimes; and (3) access to working capital for exports at internationally competitive rates.

In addition, other policy reforms and administrative reforms have been implemented to improve the economic policy climate for both exporters and foreign investors. These include: attractive fiscal advantages for exporters and foreign investors; a simplification of administrative investment procedures, and a series of financial reforms to broaden and deepen local financial markets, which should help to provide capital for export activities and develop greater opportunities for foreign portfolio investment. The rate at which financial markets will develop in Tunisia is, however, highly restricted by the lack of persons with the necessary skills and experience to manage and provide investment banking and brokerage services. It should also be noted that on-going reforms in other areas, such as privatization and price liberalization, will also help indirectly to promote Tunisian trade and investment by making the economy more efficient.

While Tunisian policy and regulatory reform performance has been impressive, some policy problems remain. The most serious is that import liberalization, which is a cornerstone of the new economic strategy, is now stalled until anti-dumping and improved infant-industry protection measures are put into place. If this "pause" in import liberalization is truly temporary, it does not pose a problem, but if it represents a hesitancy to follow through with import liberalization, the success of the entire program would be put into question. It is vital that domestic industry have a clear sectoral timetable of import liberalization so that it knows it must adjust to international competition and at the same time have the time to devise a rational program to restructure its facilities.

Other policy and administrative constraints to increased trade and investment also remain. They include: the lack of a program of incentives for indirect exporters; the inflexibility of the local Labor Code; and continued foreign exchange controls on foreign investment outside of the "offshore sector."

The absence of a program for indirect exporters discourages greater integration of the expanding export sector into the Tunisian economy, and limits domestic-valued added and net foreign earned from exports. The current Labor Code is considered by foreign firms to be a major problem of the Tunisian business environment. They contend that the Code's inflexibility and biases of labor courts excessively restrict their control over the workforce and thereby reduces productivity. Finally, the maintenance of foreign exchange controls discourages investments in non-export oriented sectors. However, it should be noted full convertibility of the dinar is a goal of the Tunisian government, and that financial authorities are progressively removing and streamlining exchange controls, albeit at a pace that some observers consider too slow.

The reforms are working. Exports are growing rapidly, especially labor intensive light manufacturing and diverse non-traditional goods. Light manufactures have grown by over 30 percent per year since the introduction of reforms in 1986, and grew by 40 percent in 1989. In 1989 light manufactures and other non-traditional exports accounted for 54 percent of total exports compared to 44 percent in 1987 and only 27 percent in 1980. It should be noted that light manufactures have a high import content, and therefore, the growth in net foreign exchange from these sectors is not as great as the export figures represent. Nevertheless, with such a rapid rate of growth in these sectors, the impact on both foreign exchange and employment is very significant and indicates clearly that the reform program is having the desired effect on exports.

Foreign investment also seems to be responding positively. The number of foreign investment and joint-partnerships in export-oriented ventures increased by 25 percent in 1989. Actual levels of direct investment are increasing but still relatively low ($100 million in 1989). Foreign direct investment in Tunisia will probably be more important in providing access to international markets and new technology than in providing large amounts of capital over the medium-term. Tunisia's small domestic market, limited natural resource base, and relatively low technological base compared to European competitors will probably keep individual investments relatively small.

Developments in Tunisia's primary trade and investment partner, Europe, will have mixed effects on Tunisia's export and investment performance in the medium-term. The creation of a Single European Market and the reintegration of Eastern Europe into the world market economy should expand demand for Tunisian products. However, the increased investor attention on Eastern Europe both as a low-cost export platform to Western Europe and to gain access to local Eastern European markets means that Tunisia will have to work much harder to attract foreign investment. Tunisia's preferential access to EEC markets for agricultural goods will probably be curtailed somewhat when Spain and Portugal become full members of the EEC. It is expected that only olive oil exports will be strongly affected. On balance, these changes will increase Tunisia's export opportunities, but make investment promotion more difficult.

With policy reforms being implemented and access to and strong demand from major European markets still in place, the primary factors continuing to inhibit Tunisian exports is the capabilities of local firms. The legacy of past import-substitution policies have left most of them unprepared for successful exporting. Primary problems include: (1) lack of detailed information on foreign markets; (2) weak management skills, especially marketing abilities; and (3) an unwillingness to share control with partners which limits possibilities for joint-partnerships.

U.S. trade and investment links with Tunisia are limited. In 1989, the U.S. exported $190 million of goods (4 percent of total Tunisian imports), and imported $60 million of Tunisian products. Total net U.S. direct investment in Tunisia is unofficially estimated at $20 million. Several factors limit U.S. investment and trade. They include: (1) a basic lack of information about Tunisia--U.S. firms are unaware of the Tunisia's good business climate; (2) different business customs and language; (3) the small size of the Tunisian local market; (4) poor transportation links; and (5) for agricultural products, a lack of strong European marketing and distribution links. European subsidiaries of U.S. firms are more aware of Tunisia and should have less cultural difficulties with local business customs and the language. Accordingly, they should be a target of any U.S.-directed promotion campaign.

<u>A Medium-Term Trade and Investment Strategy</u>

It is recommended that USAID/Tunis follow a medium-term trade and investment program strategy that focusses on the Tunisia's most pressing medium-term trade and investment constraints. They are the internal weaknesses of local firms, both manufacturing and financial, and the increased need to actively promote Tunisia as an investment site, given the increased competition created by the reintegration of Eastern Europe into the world market economy. By 1992 Tunisia is scheduled to put into place most of the needed policy measures for a successful outward-oriented market-based economy, and therefore policy analysis should no longer be a high priority for AID's trade and investment programs. Until 1992, however, policy analysis in the area of continuing import liberalization should become an important element of the Mission's Trade and Investment program.

Implementation Priorities and Modes of Implementation

For **Business Assistance** three areas have been identified as priorities to address the weakness of local firms. They include: the need for specialized market information; (2) the lack of export marketing skills; and (3) the lack of trained and experienced personnel to promote and service foreign portfolio investors. In all three areas it is recommended that the firms receiving assistance pay for a significant portion of the costs.

Lack of information was universally cited by private sector firms as an impediment to exporting. Generalized information is increasingly becoming available due to efforts by local Chambers and a slow improvement in the government's export promotion agency, CEPEX. Detailed specialized information that meets the particular need of specific firms is not available. It is suggested that AID encourage the use of and development of private fee-based information services by local exporters, by covering part of the costs paid by firms for these services.

Lack of export marketing skills. It is suggested that AID help to provide training in export marketing which includes overseas on-the-job experience.

Lack of trained and experienced financial service personnel. Foreign investment firms have played a major role in assisting other developing countries that recently developed their capital markets in training local personnel and attracting foreign portfolio investment. To encourage the same process in Tunisia, it is suggested that AID assist firm with the training costs of local professional personnel working for joint-ventures financial institutions. This type of program should probably not be established until 1992, when local capital markets have developed enough to attract foreign investors.

Investment Promotion: The second part of the trade and investment strategy would be the development of a comprehensive program to promote investment in Tunisia from U.S. firms, with a special focus on the European subsidiaries of U.S. firms. Investment promotion is a Tunisian priority and authorities would especially welcome U.S. official assistance in attracting U.S. investment. In addition, investment promotion is a useful vehicle to increase the current limited private sector links between the U.S. and Tunisia. Even though investment from U.S. firms and their European subsidiaries is now low, the prospects for significant increases are good because of the increased attention being focussed on European markets, and the increased need for low cost production sources due to increased competitive pressures created by the Single European Market. Using Tunisia as an export platform, U.S. firms should be able to be more competitive in the European market.

It is suggested that this program be led and coordinated through the Tunisian American Chamber of Commerce (TACC). TACC is a private organization that has as one of its major goals to promote greater business linkages between Tunisian and U.S.-owned firms. The TACC is already active in promoting U.S. investment in Tunisia from Tunisia and in the United States with its sister organization the U.S.-Tunisia Business Council. Its current small staff size can be viewed as an asset, as it provides AID with an institution without the bureaucratic baggage that often hinders effective investment promotion. With AID resources, TACC could develop a professional investment promotion arm.

A more thorough evaluation of TACC's capabilities must be conducted to ensure that it will be able to lead an investment promotion program. It is expected that TACC would work closely with API and local Chambers in conducting promotional activities.

To make the **current trade and investment program** more effective and to lay a solid groundwork for the medium-term strategy, it is recommended that the current program become more focussed and limit its extremely broad range of activities. It is suggested that the current program focus its activities on investment promotion and policy analysis activities.

II. FINDINGS AND ANALYSIS

1. Policy and Regulatory Environment

The most important element of any trade and investment promotion strategy is the implementation of economic and administrative policies and regulations that create market-based economic incentives that are competitive with other economies. Without a sound economic policy environment, no export and foreign investment promotion strategy can achieve its objectives of fueling long-term growth. Tunisia is making dramatic progress in implementing economic reforms to create a competitive economic environment. If this reform progress continues, Tunisia should reach its objective of developing a rapidly growing export-led economy.

Since 1986 Tunisia has made many of the steps necessary to reorient its economic policy framework to one that is more open, outward-oriented, and market-based. Working with the IMF and World Bank, Tunisia is implementing a comprehensive structural reform program that opens the economy to greater foreign and domestic competition, encourages greater exports and foreign investment, and reduces the role of the state in economic matters, both through a greater reliance on market-mechanisms and privatization of state enterprises.

It is important to note that Tunisia is only in the middle of this reform process. Additional measures still need to be implemented, before the first phase of the structural policy reform program is completed in 1992. The Tunisian government fully recognizes this, but as market-opening measures begin to impinge on the interests of protected sectors, political pressure to delay reform measures mounts. There is evidence already for example, that a key element of the reform process, gradual import liberalization, is stalled, because of pressures from domestic industry. Continued progress is vital. Greater competition from imported goods is a cornerstone of the reform program, as this competition is required to force domestic industry to become more efficient. Politically, these are difficult policies to implement, and, not surprisingly there is some evidence that the government is hesitant to move forward as planned in this area. Sectoral policy reform as well privatization, currency convertibility and more complete market liberalization will carry on into the second phase of the structural policy reform program beyond 1992.

Necessary conditions for export success achieved: Recent economic studies by Yung Rhee of the World Bank on the success of East Asian nations in achieving rapid export-led economic growth found that there are three minimum conditions for successful exporting. With the reforms put in place over the past three years, the Tunisian economic environment now meets all three of these conditions, and not surprisingly exports have grown sharply.

As most foreign investment in Tunisia is export-oriented, the achievement of these conditions are also vital for the attraction of foreign investment. These conditions include:

(1) **The maintenance of a competitive exchange rate.** The exchange rate is the single most effective instrument to promote exports, as it is the vehicle which determines most directly the international price of domestic input. Since the major devaluation of the dinar in 1986, monetary authorities have largely maintained the competitiveness of the exchange vis-a-vis major trading partners and competitors. Unlike many other countries, this policy of real devaluation has been achieved without a major increase in the inflation rate. This achievement demonstrates the government's sound macro-economic management.

With the devaluation of 1986, most evidence indicates that Tunisia's most important input for export production, its labor resources, are quite competitive. All exporting firms interviewed, as well as authorities on competitive markets, agreed that Tunisian labor costs are competitive with most competing labor markets, after taking into account Tunisian labor productivity. Business persons and analysts at international financial institutions explained that Tunisian labor is considerably more productive than those of other North African and Near Eastern economies. At the minimum wage, total labor costs for Tunisian workers is about $.90 per hour at current exchange rates, or less than a tenth of total employment costs in Northern Europe, and about the same as those in Eastern Europe and Portugal. However, a study conducted by a European consulting firm on labor costs in the textile industry, quoted in "Realités", a Tunisian newsweekly, found that total labor costs in Tunisia were almost twice that of Morocco or Turkey. Although no other information on this study is available with which to interpret more carefully the results, it indicates that competition from these countries for markets in Europe and as sites for export-oriented investment will be fierce.

(2) **Access to inputs at world prices.** This condition has largely been achieved through a series of special import regimes and a relaxation of foreign exchange controls for exporters. These special advantages were established as part of the Tunisia's new investment code. Firms whose production is devoted exclusively to exporting, "société d'exportatrice" and firms that export at least 15 percent of their annual sales, can import all production inputs used for exports duty free under a temporary admission regime. Foreign firms that are devoted to export operate

in an "off-shore" sector and are subject to no foreign exchange controls or taxes, other than social security contributions and other labor social charges. For Tunisian exporting firms, the authority to purchase the foreign exchange for inputs is automatic and conducted through banks. Finally, all firms can be reimbursed for tariffs on inputs of goods that are exported. However, users of this system complain that there are long delays in receiving payment, and that Customs authorities are difficult to deal with.

Need for Indirect Exporter Incentives: The provision of special advantages only for exporters leads to a lack of integration between export enterprises and the rest of the Tunisian economy. Under the current investment code, there is no incentive for exporters to source their inputs locally, since these suppliers do not have the fiscal or import advantages of exporters, and thus face higher costs. It should be noted, however, that the government is aware of this problem and is considering the possibility of providing indirect exporters with the same liberal access to imports as received by exporting firms.

(3) Access to working capital at internationally competitive rates. Tunisian exporters' access to working capital was good even before the introduction of financial reforms of the past three years. Before and now, they can obtain working capital for exports (pre-export financing) at preferential rates, currently about 8 percent, compared to 13.5 percent at market rates. The gap between the market and preferential rate is programmed to narrow in a phased manner as part of Tunisia's IMF program. Since domestic real market interest rates are in line with real international market rates, the elimination of preferential rates for exporters should not put Tunisian exporters at a disadvantage.

Exporters report, however, that banks are hesitant to provide pre-export financing on exports to countries with poor payment records, such as Algeria, even when the exporter has export insurance from Cotunace. Banks do not want to avoid the delays in payment and costs involved with filing a Cotunace claim.

Additional Measures: While Tunisia has achieved the former necessary conditions for successful export, other measures are working to facilitate exports and investment, both domestic and foreign. (See Annex I for a detailed review of changes in economic policy and regulation affecting trade and foreign investment).

Fiscal reforms have simplified and made the tax system more efficient. These reforms are also designed to encourage greater savings and investment. In addition, special incentives have been provided to exporters and foreign investors. Income and profits earned from export production is exempt from all company or personal income taxes. In addition, as in other countries, exporters are not required to pay the Value-Added Tax (VAT). Finally, foreign nationals working in export-oriented industries are subject to a flat 20 percent personal income tax.

The investment code has been revised to eliminate most unnecessary administrative delays, as well providing incentives to encourage greater foreign and domestic investment. The government's former overly intrusive role has been reduced. Under the new code established in August 1987, investment rules and guidelines for approval and access to advantages are transparent, and investment approval for exporting firms is almost automatic. Firms not seeking special advantages and "off-shore" firms do not need government approval, but must only register with the government investment promotion agency, API. It should be noted that while much has been made of the elimination of prior agreement by API for industrial investment, in practice most investments do seek some special incentives, and therefore still must receive API approval.

API Performance: All private firms interviewed as well other knowledgeable individuals volunteered that API now approves projects in a much more timely and straightforward manner. Almost unanimously, firms interviewed agreed that API's new leadership is committed to transforming API into an institution dedicated to promoting private sector investment, foreign and domestic, from one that attempted to control and regulate investment. The staff of API, on the other hand, still have a tendency to see their function as one of regulation. With time, the new management should be able to change the staff's attitudes and performance. One major obstacle to more rapidly improving API's performance as a promotion institution is that it is overstaffed for investment promotion functions. The most effective investment promotion agencies tend to be small and highly professional institutions. The excessive number of personnel encourages the institution to operate in an overly bureaucratic manner. Moreover, given the regulatory background of API, much of the staff does not have the appropriate training or experience for promotional activities.

Other investment code changes include the establishment of a special legal status for trading firms which allows them to operate like an offshore company. While these firms have facilitated a significant amount of exports, the advantages provided to these firms, including the duty free import of office equipment and a car, have been abused. Over 600 of these companies have been established. Many of these were legally established, only as a means to import a car and office equipment duty free.

To crack down on this, payment for these imports must come eventually from actual export receipts.

Financial Sector Reform: The success of Tunisia's export-led growth strategy will depend greatly upon how rapidly the country is able to widen and deepen its financial markets and services. To be able to make the transition from an import-substitution oriented economy to an export-led one, capital must be mobilized and shifted towards export industries and more efficient producers for domestic markets. Tunisia's current underdeveloped financial markets restrict the mobility of capital, and equally important, make it difficult to raise longer-term investment capital.

Currently, Tunisia's financial system is dominated by banking institutions that provide almost exclusively debt financing. The largest institutions are commercial banks that tend to provide short-term financing. For medium- and longer-term lending that is necessary for investment financing, the primary sources are development banks, which are usually joint-ventures between other Arab states and the Tunisian government. Non-debt forms of investment financing are generally unavailable.

Over the past two years, Tunisian authorities have put into place the regulatory, legislative, and fiscal framework to encourage and facilitate the development of broader and deeper financial markets. These include: a series of measures to encourage greater competition amongst commercial banks, including the development of a competitive money market rate, and the encouragement of foreign banks to become established on-shore, a reduced role of the Central Bank in lending decisions which forces banks now to conduct more thorough credit analyses, the development of a range of new financial debt instruments by the government and private firms to generate more competitive markets for savings, and broad-based reform of the local stock market and securities legislation to encourage the development of an equity market. To complement the development of the market for financial securities, monetary authorities have implemented measures to establish two types of mutual funds for passive investors, i.e. societé d'investissement à capital variable (SICAVs) and societé d'investissement à capital fixe (SICAFs). With these reforms financial institutions are able to compete on the provision of a broad range of financial services. It is expected that this competition will lead to the deepening and broadening of local financial markets and thereby the provision of better and more complete financial services to the private sector.

While the legislation and appropriate fiscal measures are now in place for the development of comprehensive and competitive financial markets, it will take time for the markets to thrive because of the lack of experience of local economic actors with competitive financial systems, and equally important, the lack of technical skills and appropriate management experience amongst financial intermediaries, primarily commercial banks. In addition, the current caps on interest rates also discourages borrowers from going to capital markets. With the lower rates imposed by these caps, the incentive to use alternative forms of finance other than bank lending is reduced. With the elimination of these caps and the use of market competition to set rates, alternatives will become more attractive and thereby encouraging the development of local capital markets.

Private enterprises are hesitant to float bonds or security issues because they do not want to open their accounts to outside investors. Part of this hesitancy is due to the maintenance of false accounts to avoid tax payments. With general tax reform which has reduced corporate tax rates and the double taxation of dividend payments, this hesitancy due to tax reasons should be reduced. However, the family nature of most Tunisian firms, even the larger more sophisticated ones, inhibits them from accepting even passive investors, because of the potential intrusion minority shareholders portends.

Although the lack of immediate results from these capital market reforms, leave some economic observers pessimistic about the probability of success, it should be noted that in other developing countries which now have rapidly growing capital markets, such as Korea, Thailand and Indonesia, progress was slow, as the family-run firms were extremely hesitant to allow the financial participation of outsiders in their firms. It is probable that a demonstration effect will take place. Once one firm floats an equity issue and raises substantial amounts of funds, which is then used to finance expansion, other firms will follow suit.

While there has not yet been a rapid response by potential offerors of financial securities to take advantage of Tunisia's capital markets as a means to raise capital, part of the delay is due to the lack of expertise in investment banking and security trading skills by local financial institutions. As in other countries these skills will develop with experience, and would be accelerated through joint-partnerships with experienced foreign financial institutions.

Judging from the experiences of Thailand and Indonesia, foreign financial institutions, buoyed by foreign portfolio demand, were eager to develop joint partnerships with local firms to become involved in their emerging capital markets. **Foreign portfolio investment** have been major sources of demand for securities in these countries. The same could be the case in Tunisia, especially if the local economy accelerates. Foreign portfolio investment could provide needed longer-term capital for the Tunisian economy, and also encourage participation by foreign financial service firms which would accelerate the transfer of financial market skills to Tunisian firms.

Local entrepreneurs and economic observers complain that one of the reasons that private sector investment is not rising quick enough to fill the ga ft by a reduced public sector role in the economy is that Tunisian banks are too risk averse and conservative. This criticism seems misplaced. Commercial banks using deposits as the source of their lending funds should be conservative. The completely bankrupt banking sectors of many developing countries, as well as the state of the U.S. thrift industry, demonstrates the potential catastrophes engendered by overly adventurous bankers. Moreover, with the current gap on interest margins, bankers cannot differentiate sufficiently in terms of returns.

The nature and scope of Tunisia's financial sector reforms demonstrate that financial authorities understand the problem. Rather than encouraging banks to become less risk-averse, they are encouraging the development of markets for security markets, where investors seeking higher, but riskier investments than savings accounts can put their money. Banks are encouraged to participate in equity markets as intermediaries and as investors using their own capital, not that of their depositors.

Key Remaining Policy Obstacles

Import Liberalization: Import liberalization is one area where the policy performance of the Tunisian government is problematic. Import liberalization is vital to export growth. While other measures such as special import and fiscal regimes and a competitive exchange rate encourage exports, and thereby work to generate new investment in and the expansion of current export facilities, the other half of the process requires measures that push or force firms currently producing for the domestic market to become more competitive and orient some of their production for export markets. The competition or assured threat of competition from imported goods is the most efficient means to force domestic firms to adjust. Without the threat of lost markets, domestic firms will continue with existing inefficient, but profitable, practices.

As part of its Seventh five-year plan and its programs with the IMF and the World Bank, Tunisia is committed to a very ambitious import liberalization program which will eliminate quantitative restrictions on 80 percent of imports by March 1991, and reform the tariff system. The effective protection rate is planned to decline to 25 percent by 1991. Maximum tariffs have been reduced to 41 percent.

Initially, Tunisia was able to meet its liberalization schedule rapidly, as only capital goods, intermediate goods, and raw materials were liberalized. While these goods are the most important for competitive exports, these moves put little pressure on local industry to adjust because few of these goods are made locally. Between January 1987 and January 1988, 53 percent of imports were liberalized in three stages. Since this phase of relatively easy liberalization, the process has slowed considerably, and currently is blocked. By September 1989, 64 percent of imports were no longer subject to quantitative restrictions and subject only to tariffs. However, IMF programs called for 68 percent by June of 1989. By year end-1989, almost no final product imports have been liberalized.

In addition to this slowdown in general import liberalization, authorities have blocked the use of provisions included in the new investment code that allows exclusively exporting firms to sell up to 20 percent of their production in local markets. This not only limits competition, but also works to continue inhibiting the integration of the export sector into the overall economy.

Government officials accept that there has been a definite slowdown in import liberalization. They contend that this "pause" is needed to have time to put into place "anti-dumping" measures, and special facilities for "infant industries." Once these measures are in place, they argue, liberalization will resume as planned. However, in private, officials will confess that fear about the short-term employment effects of liberalization is also motivating this "pause." In addition, some observers have mentioned that monetary authorities want to maintain some additional short-term instruments (licenses, foreign exchange controls) to manage the country's balance of payments.

The major problem with the current situation is that a sectorial timetable for liberalization has not been established, and therefore a clear message upon which domestic producers can plan their adjustment process is not being sent. If producers are not sure when and how liberalization will be introduced, they will not adjust. Indeed, this uncertainty may be part of the reason for the relatively slow positive private sector investment response to the economic reform program.

The removal of this uncertainty with a sectoral timetable of import liberalization and tariff reduction is a policy priority, and one with which AID should consider assisting the Tunisian government in implementing. It may be necessary to consider temporary supplementary tariffs for certain sectors. Higher tariff protection in the short-to-medium term may be necessary to assure efficient adjustment and arrival at a moderate rate of effective protection within in a predetermined timetable.

Labor Code

Foreign mangers interviewed uniformly complained about the Tunisian Labor Code. Their complaints centered on their belief that the labor courts were biased in favor of employees. This results in high costs in discharging employees. In addition, without greater control over who works at their institutions, foreign firms contend that the Labor Code makes it difficult to impose production and productivity standards. Moreover, they are unable to adjust work force levels to the uneven flow of work orders. To avoid the inflexibility of the protection provided by the Labor Code, many firms hire workers on a six-month temporary work status, which they then repeat at the end of the six-month period.

While foreign managers complain about the "Code du Travail" their difficulties seem to be due in large part to their misunderstanding of how the system operates, and how it can be managed effectively. Experienced Tunisian managers in the export sector contend that the local labor code does not impose any serious difficulties. With good communication with employees and their representatives, and proper documentation for administrative and judicial purposes, problems can be avoided. A lawyer who works primarily for employers volunteered that employers' difficulties in discharging employees for justifiable reasons is due primarily to poor documentation of the employees performance. Moreover, compared to labor practices in competing Mediterranean countries, such as Egypt or Morocco, and all of Europe, Tunisia's system was considered to be more flexible by foreign firms and their representatives.

It should be noted that the government attempted in 1989 to submit a minor revision of the Labor Code to create more flexibility, but retracted it quickly in the face of vociferous opposition from labor groups. The political difficulties in revising the Labor Code, make it unlikely that any changes will be forthcoming soon, especially considering that the government needs cooperation from organized labor organizations in moderating wage demands.

While adjustments in the Labor Code itself are politically difficult to adopt, the government could make a greater effort to explain how the system operates to foreign firms and their managers. Included in these efforts would be the use of bilingual Labor Ministry officials to respond to foreign firms needs more effectively and rapidly, and the translation of Labor Code documents into German, English, and Italian.

2. Trade and Investment Response to Reforms: The Program is Working

Some analysts have been disappointed with the private sectors' response to Tunisia's economic reforms. This disappointment is misplaced. Exports are growing very rapidly, while foreign investment, after a lag in 1987 and 1988 in response, perhaps, to political uncertainty, is beginning to increase sharply in 1989, with signs of further acceleration.

Exports: Since the introduction of the major elements of the reform, in late 1986 and 1987, export performance has been far from disappointing. Economic actors have responded as expected to the increased incentives to export, especially in the labor intensive light manufacturing sectors, which are the most important in addressing the current number one economic priority, employment.

As the following set of tables indicate, light manufactured and non-traditional exports have almost doubled in the past two years. They have grown by over 30 percent per year since 1986, with a noticeable acceleration of growth in 1989 to 40 percent. This growth is not limited to just textiles. Tunisia has significant exports in an increasingly broad range of light manufactured goods, including shoes, electrical products, as well as ceramic goods. Indeed, non-specific, non-traditional exports grew by 50 percent in 1989. Light manufactures other than textiles totalled over 600 Million Dinars in 1989 or 24 percent of total exports. Light manufactures and non-traditional exports now make up more than one-half of total exports. Agricultural exports have been flat over the period of the economic reforms due primarily to the period of extended drought.

Although the rates of growth for some export sectors has been high, it should be noted that much of this growth has come in the labor-assembly industries where the import content of the exports is relatively high, compared to agricultural or natural resource exports, and therefore the export figures do not represent net income earned by Tunisia. Nevertheless with such high rates of growth, even with low domestic valued added the contribution in terms of foreign exchange and employment (as noted below) of these sectors is very significant and growing rapidly.

Tunisian Exports
(Millions of Dinars)

	1989	1988	1987	1980
Total	2725	2055	1771	905
Light Manufactures	1472	1048	778	245
of which:				
Textiles	828	612	509	157
Leather Products	67	48	35	16
Electrical Machines	131	90	66	14
Paper	25	18	14	7
Other	421	280	153	54

Increase in Exports
(Annual Percentage Increase, Valued in Dinars)

	1989	1988	1987
Light Manufactures	40%	34%	32%
of which:			
Textiles	35%	20%	31%
Leather Products	39%	36%	39%
Electrical Machines	35%	36%	46%
Paper	36%	20%	114%
Other	50%	83%	22%
Total Exports	35%	16%	28%

Importance of Light Manufactured Exports
(Percentage of Total Exports)

	1989	1988	1987	1980
Light Manufactures	54%	51%	44%	27%
of which:				
Textiles:	30%	30%	29%	17%
All Other	24%	21%	15%	10%

Source: Banque Central de Tunisie, Ministere du Plan

Up-to-date statistics of employment in export activities are difficult to obtain, yet available information shows a marked increase in export industries. According to statistics from API employment in "societés d'exportatrice" increased by over 25 percent between 1989 and 1988. In 1989, "societés d'exportatrice" employed 64 thousand persons compared to 51 thousand in 1988. It is likely, however, that these API employment statistics underestimate employment in this sector. Expansions are reported with long delays. For example, current employment at one firm interviewed totalled 250 persons, while API reported employment of only 80 in their statistics of November 1989.

Foreign Investment: Complete and up-to-date data on foreign investment in Tunisia in 1989 is not yet available, but preliminary evidence, both from official sources and anecdotal accounts, indicate that foreign investors are responding favorably and that investment is increasing at an accelerating rate. The level of new investment is still low. Compared to those recorded in some other relatively low-wage countries such as Portugal, which claims to have attracted over $2 billion of new foreign investment in 1989.

According to figures from API, the number of new foreign or joint-venture firms devoted exclusively to exports in 1989 increased by over 25 percent to 453. The vast majority of these new firms are joint ventures. API also reports that investment agreements in the export sector for both Tunisian and foreign exporting firms are up about 50 percent in 1989 compared to 1987. Actual investment can trail agreements by several years, so this response will take some time to become apparent in production, but it is clear that foreign investors are responding.

In addition to these official figures, officials interviewed at institutions such as the Tunisian-German Chamber of Commerce, the U.S. Embassy and a range of local and foreign banks reported that investor interest in Tunisia has picked up considerably in 1989. The Tunisian German Chamber of Commerce indicated that there were 16 new German ventures in Tunisia in 1989, or an increase of about 20 percent. In addition, a U.S. Embassy official reports that more U.S. firms are coming to Tunisia to investigate Tunisia as a investment site, but as yet no new investments have been reported.

Most of this increased activity remains in the offshore-sector and is small to medium scale by international standards. These investments are more important to Tunisia as a means to gain access to foreign markets and technology, than in generating large amounts of investment capital. Actual direct investment flows are still relatively low. Direct investment in 1989 is expected to reach $100 million, considerably higher than the $70 million annual average in 1986-1989, but far less than the levels in the early 1980s when direct investment was over $300 million for several years due to substantial investment in the petroleum and tourism sectors.

Since Tunisia is implementing the appropriate measures to attract foreign investment, it is expected that these flows should continue to increase. However, experience has shown that it takes time for foreign investment to reach high levels, especially when there is not a large domestic market. The world business community must become assured of the permanence of the reform measures and domestic economic actors become more comfortable with foreign partners and competitors. Portugal's ability to attract high levels of foreign direct investment is due to the combination of its position as lowest wage economy in the EEC with a growing reputation for stable and sound economic policies.

3. Foreign Market Developments

Tunisia's export-led strategy is based largely on the combination of the country's competitive production capabilities and its geographic proximity and preferential access to the EEC and other European markets. The EEC and other Western European countries purchase about 70 percent of Tunisia's exports, and investors from these countries dominate the offshore-sector, consistently provide over half of direct investment flows, and firms from these countries are the primary participants in Tunisia's off-shore export sector. Given the importance of the EEC and Europe in general, changes in market access and the European business climate will have profound effects on Tunisia's trade and investment performance. **The basic result of the expected changes in Europe, including both the creation of a Single European Market and developments in Eastern Europe, is that Tunisia should enjoy expanded markets for its exports, but will have to work harder to attract foreign investment.**

Regarding export demand and market access, developments are promising. The creation of the Single European Market in 1992 should lead to a general increase in demand for Tunisian products, as overall economic activity in the EEC expands. Moreover, given the need for European firms to become more competitive in the enlarged market, there should be increased interest in sourcing products from low cost production sites, within close proximity, i.e. Tunisia. There is evidence from a report on follow-up activities to the Tunisian-American Joint Commission on Trade and Investment, that European subsidiaries are beginning to look at Tunisia as a source for European sales.

EEC documents and officials repeatedly claim that the creation of the Single European Market will lead to no change in the existing arrangements between Europe and non-European Mediterranean countries, such as Tunisia. According to EEC officials, the key date for Tunisia is not 1992, but 1996 when Spain and Portugal become full members of the EEC. With full entry, there will be increased pressure to reduce Tunisia's preferential access to the EEC for a range of competing agricultural crops, such as olive oil, citrus fruit, wine and some vegetables. However, except for olive oil, it is not expected that access will be curtailed sharply, and that with more imaginative and flexible marketing, Tunisia will be still be able to compete in European markets, especially for off-season fruits and vegetables.

The other key development in Europe, the reintegration of Eastern Europe into the world market economy, will also have mixed results for Tunisia's trade and investment prospects. The opening of Eastern Europe has lead to a focus on Eastern Europe as "the" investment site for low cost access to European markets. In addition, these countries provide a potentially large domestic market, which Tunisia does not. Although the economic situation in Eastern Europe is still in flux, investment interest is focussing on that area, and large investments are taking place. Newspaper accounts report of a basic shift in the European center of gravity away towards the East and North to the detriment of Europe's Mediterranean sun-belt, which has been a primary focus of European expansion over the past few years. For example, Suzuki, the Japanese motor vehicle firm, decided to open a large assembly factory in Czechoslovakia, instead of Portugal, where it was first planning to site the factory.

This shift will make it harder for Tunisia to attract investment. Firms have only a limited amount of capital resources, and with their European strategies moving away from the Mediterranean towards Eastern Europe, there will be less funds for Tunisia to attract. It should be noted, however, many analysts of Eastern European economies, such as Paul Sachs, an advisor to several East European governments, expect wages in Eastern Europe to rise sharply over the next few years as foreign capital and demand bid up local wages and currencies. In this case, Tunisia's attractiveness as an investment site would be enhanced. Moreover, it is not yet clear that the economic experiments in Eastern Europe will work. If the bloom comes off the rose, foreign investors would refocus their attention southward.

While Eastern European developments do not bode well for foreign investment in Tunisia, especially in the short-run, they should lead to expanded markets for Tunisian goods. Currently, Eastern Europe absorbs only about 5 percent of Tunisian exports and much of this is conducted through cumbersome counter-trade arrangements. With greater Eastern European access to foreign exchange, their demand for Tunisian exports, especially agricultural products, should expand. Indeed the increased demand in Eastern Europe could offset the effects of reduced agricultural access to the EEC.

<u>Maghreb and Other Arab Country Markets</u>: Tunisia's small domestic market is a major disincentive for larger-scale more

sophisticated foreign investment. The creation of a Maghreb Common Market would go far in removing this disincentive. A Maghreb Common Market would have a population of over fifty million and a collective GDP of around $75 billion. However, private firms and persons involved in Maghreb cooperation activities do not expect that a working arrangement will be reached even in the medium term. Neither Morocco or Algeria are enthusiastic supporters of a common market with other Magrhebian countries. Morocco would prefer membership into the EEC, while Algeria has not yet decided whether to open its economy to foreign competition.

Tunisia has preferential market arrangements with other Arab countries and private Tunisian firms are looking closely at these markets. Tunisian exporters report that irregular and costly transportation to these markets, especially the Gulf states, makes expansion in these markets difficult. In addition, increased economic activity in these economies is not expected in the medium-term without an increase in petroleum prices.

4. Tunisian Firm Level Constraints

The vast majority of Tunisian firms are still unprepared to conduct successful export activities due primarily to the effects of the country's past import-substitution policies. The legacy of this import-substitution policies is that most firms cannot produce at internationally competitive levels. Moreover, as they concentrated on the protected local market most firms have little to no export experience, and subsequently lack basic information about foreign markets, international product standards as well as accepted international business operating procedures.

Interviews with private sector firms as well with banking officials and international investment agencies, such as the IFC and OPIC, revealed several basic firm-level constraints to export expansion.

1. **Lack of information.** Private firms consistently placed a lack of market information as the most important constraint they faced. They found it difficult to get needed information about foreign markets, including information about demand for different goods, marketing channels and administrative procedures. Discussions with EEC and U.S. officials also revealed that firms were generally unaware of many special programs such as the GSP to the U.S. More sophisticated Tunisian business executives explained, however, that once one begins to export even on a small scale, a successful entrepreneur finds this market information on his own. Less experienced individuals complained that this lack of information was due to the failure of government agencies, such as CEPEX to provide it.

Lack of information on technologies and production methods required to be competitive was also an important constraint. Firms believe that joint-ventures with foreign firms is one effective way to bridge this technology information gap.

2. **Firm Organization and Management Skills:** Owners of Tunisian firms tend to dominate all business decisions. As a result professional management tends to be quite shallow and non-specialized. Consequently, if the owner does not have experience in exporting, it is difficult for the firm to expand successfully abroad, as the staff has not been able to develop the necessary skills for such an expansion. Key marketing skills are especially lacking in most Tunisian firms, since marketing was not a priority in the generally non-competitive local market.

3. **Unwillingness to share control with minority partners.** The family ownership structure and the aforementioned predilection of the owner to control all business decisions, combined with a desire to hide company accounts from tax officials makes Tunisian firms skeptical about accepting minority partners. This unwillingness to share control makes it difficult for foreign firms to enter into joint partnerships with Tunisian firms. This difficulty was expressed by officials at international organizations as one of the reasons for relatively weak foreign investment interest in Tunisia. In addition, this fear of outside interests is a basic obstacle to the development of equity markets, as firms are unwilling to accept even the limited rights of minority shareholders.

5. Constraints to Greater U.S.-Tunisian Trade and Investment Ties

U.S. and Tunisian private sector linkages are currently limited. In 1989, Tunisia imported about $190 million of U.S. goods, representing about 4 percent of total imports, while the U.S. imported $60 million of Tunisian goods. Unofficially, U.S. Embassy officials estimate U.S. investment in Tunisia to total only $20 million, most of this is in the petroleum sector. According to API records there is only one exclusively U.S. firm in export sector, AMUCO International, a textile manufacturer located in Ben Arous. There are four other firms in the export sector with some U.S. participation. The total registered capital of all five firms is less than $1 million, and total employment is less than 250 persons.

U.S. investment in and exports to Tunisia are restricted by several factors, including:

Lack of information about Tunisia: Geographic Location. U.S. firms do not know about the opportunities available in Tunisia. U.S. firms are not aware of the fundamental differences between North African countries, and tend to view Tunisia in the same vein as Algeria and Libya. Where Tunisia's geographic position is a basic selling point to attract European-oriented export investment, its geography works as an important deterrent to U.S. investment.

U.S. investment interest, however, seems to be picking up. U.S. Embassy officials as well as financial and legal interlocutors report an increased level of activity by potential U.S. investors. Part of this increased activity is due to the preliminary promotional efforts which AID has assisted.

Different business customs and language. One would expect U.S. firms to accept that doing business in foreign countries requires using different languages and working with different business practices. Yet several persons involved in promoting U.S. investment explained that language barriers and different business practices deters U.S. investment. U.S. firms are used to working in English, and indeed English has become the international business language. Only a minority of business leaders and government officials in Tunisia speak English, which is not the case in most of Latin America, Asia, or Western Europe.

Tunisia's use of the French legal system and administrative processes is also quite different from that to which U.S.-based executives and investors are accustomed. With experience this will not pose an obstacle, but initially it makes business transactions more difficult and costly.

It should be noted that this lack of knowledge about Tunisia is not the case in general amongst European executives and entrepreneurs. They understand the differences between Tunisia and its neighbors, and appreciate the advantages Tunisia provides. Given this difference, promotional efforts directed at U.S. firms should be targeted towards U.S. subsidiaries in Europe, where executives would have a greater background knowledge about Tunisia.

Small size of Tunisian market. Although Tunisia's primary advantage is as a low-cost export platform to Europe, major investors usually want to use local facilities to source local demand. Tunisia currently cannot provide a local market that could absorb even a fraction of large international scale factory. With the development of an effective Maghreb common market, Tunisia could provide access to a much larger "local" market. With the small size of the Tunisian market, U.S. firms look to other markets first in spending their limited export marketing dollars.

Poor transportation links. The lack of direct sea or air links between Tunisia and the U.S. inhibits trade in both directions. Without direct links, shipping costs rise sharply, and the possibility of damage to merchandise increases when cargo must be handled twice. Shipping times are also greater. Experience in developing markets shows that when demand presents itself, the transportation market responds. If trade increases between the U.S. and Tunisia, transportation links will improve commensurately, unless there are legal obstacles to their development. International airline rights are regulated, but there is no evidence that either U.S. or Tunisian officials would get in the way of direct flights. The lack of demand is the primary obstacle to improved transportation links. One U.S. airline has, however, indicated some interest in gaining landing rights in Tunisia.

Agriculture: Lack of European Marketing and Distribution Networks. According to the director of APIA, the Tunisian agricultural investment promotion agency, most foreign investment in agriculture is devoted to industrial agriculture in a greenhouse environment. A broad range of fruits and vegetables are grown in a highly controlled environment to match production with peaks of demand in European markets. Very close links with European fresh fruit and vegetable marketing and distribution networks is absolutely necessary for the success of these ventures. Without assured demand, these ventures are not feasible. There are few U.S. agricultural producers with these necessary European links, and therefore, U.S. investment in agriculture seems to be disadvantaged. Nevertheless, there are indications of growing interest on the part of U.S. firms in investing in Tunisian agribusiness for export, including seafood cultivation.

Prospects for U.S. Investment: Although U.S. and Tunisian private sector ties are limited currently, the prospects for increased ties, especially investments oriented for export to Europe and other Mediterranean markets, are good. With the creation of the Single European Market in 1992 and the opening of Eastern Europe to the West, U.S. firms with sizeable European sales and European subsidiaries of U.S. firms are revaluating their European strategies. Tunisia, as a low-cost investment site for labor intensive products, could become a part of their new strategies. To be included in their European strategies, Tunisia must work to make European subsidiaries of U.S. firms and U.S. firms with significant European sales better informed about the advantages of sourcing some production from Tunisia. While word of mouth and the demonstration effect of successful firms is the most effective method of informing and attracting potential investors and traders, an organized direct promotion campaign addressed at these firms is a key step in the information process.

III. A MEDIUM-TERM TRADE AND INVESTMENT STRATEGY

For Tunisia, AID's medium-term trade and investment program strategy should be to focus on (1) business assistance activities to improve local firms' ability to export and financial firms' capabilities to promote portfolio investment and (2) the promotion of U.S. investment. During the period running up to the establishment of a new program in 1992, AID should work to limit its broad range of activities and concentrate on meeting the government's policy analysis needs during the next crucial two years, and begin to develop a comprehensive foreign investment promotion program directed at U.S.-owned firms, especially European subsidiaries of U.S. firms and firms with sizeable European sales.

This strategy is designed so that AID will address Tunisia's most pressing medium trade and investment constraints which are concentrated in the weaknesses of local firms and the increased need to actively promote Tunisia as an investment site in the face of increased competition for investment funds. Although policy improvement is the most effective element of trade and investment promotion, AID need not concentrate its efforts in helping Tunisia in this area because as has been explained in detail in the preceding section, the policy climate in Tunisia for both exports and investment is already good. In most areas, the necessary policies have been put in place and necessary follow-up measures are being conducted. Tunisian officials understand what needs to be done and are doing so.

Since it is expected that the policy climate should be good when AID's new trade and investment program begins in 1992, AID should concentrate on helping local firms take greater and quicker advantage of the export opportunities created by the improved policy climate, and making U.S. firms and their European subsidiaries more aware of the opportunities available in Tunisia.

One policy area where there is some reason for concern is import liberalization. The government is reportedly working with the World Bank to get the program back on track. However, AID should consider providing technical assistance to the new Ministry of Finance, if requested, to help them design a sectoral timetable for import liberalization. Although the policy climate is good, AID should be ready to respond to demands from the government when they arise, especially during the crucial next two years of the structural reform program. At this time, it is hard to predict what will be needed in the 1992-1996 period. If the government maintains the policy performance it has achieved during the first three years of its restructuring program, policy analysis should not be a priority in the trade and investment sector in a medium-term strategy.

Business Assistance: As identified previously, the legacy of past import-substitution policies have left local firms unprepared to conduct successful export activities. AID can work in several areas to help local firms overcome these constraints and become effective exporting firms. Key areas for assistance identified by the private sector firms include information services and training in export marketing.

Private financial firms also need assistance in order to acquire the skills necessary to promote and service foreign portfolio investment. Not only will portfolio investment help to provide needed long-term capital to help finance the restructuring of Tunisian industry, it can also fuel demand for a range of Tunisian securities which would propel the development of Tunisian capital markets. As industrial firms do not have the skills for successful exporting due in large measure to the legacy of past import-substitution regimes, local financial institutions do not have the skills necessary to provide competent and competitive investment banking and brokerage services, because the tightly controlled past financial regime discouraged competition and the provision of a broad range of financial services. It should be noted that this assistance to financial firms to provide investment banking and brokerage services in order to promote foreign portfolio investment complements AID's other private sector programs in privatization and capital market development. While local capital markets may not currently be able to support such a project, it is expected that by 1992 and the start of a new medium-term AID program, conditions will be more supportive.

Direct Investment Promotion: With international investor attention focussing on Eastern Europe, Tunisia must work that much harder to convince investors's that Tunisia is a more competitive investment location. Tunisian authorities are counting on foreign investment to play a major role in propelling its export led strategy. To date, foreign investment response has been somewhat disappointing, even though there are clear indications that foreign investment is increasing in response to the country's improved economic climate. AID's support of direct investment promotion activities would demonstrate the U.S. strong support of the government's impressive economic reform record. Given the increased difficulty Tunisia will probably have in promoting investment, it is appropriate that AID devote a considerable portion of its trade and investment budget to direct investment promotion starting as soon as possible, and continuing into the medium term.

AID's investment promotional assistance should be directed towards attracting export-oriented investment from U.S. firms and their European subsidiaries. This concentration on U.S. firms is based on several factors. Tunisia needs more help with U.S. firms than with those from other countries. The EEC and individual European countries already provide funds that are designed to promote investment and joint-ventures with investors from the donor countries. Tunisia is already reasonably competent at promoting investment from European investors and firms. Local Chambers of Commerce have substantial contact with those in European countries, and local entrepreneurs have established relations with European firms. Promotional efforts with U.S. firms are much less well established, and therefore AID assistance in this area is vitally needed. Tunisian authorities are looking to U.S. authorities to assist the country in promoting U.S. investment. With the increased attention being focussed on Europe as a center of business activity due to establishment of Single European Market and the opening of Eastern Europe, U.S. firms need a location to improve their competitiveness in Europe, Tunisia can provide this competitive edge in many labor intensive and agriculture intensive industries.

It is also a priority of AID to broaden and deepen the private sector ties between the U.S. and Tunisia. Encouraging U.S. investment in Tunisia obviously would help to accomplish this important objective.

Finally, if investment promotion with the U.S. is successful, trade flows will be promoted indirectly as well. U.S. firms will tend to buy more U.S. capital and intermediate goods to supply investments in Tunisia, which should generate U.S. exports. At the same time, an increased U.S. presence in Tunisia will make U.S. firms more aware of Tunisian products and also sensitize Tunisian entrepreneurs to U.S. preferences. Both of these developments should work to encourage greater Tunisian exports to the U.S. as well.

IV. IMPLEMENTATION PRIORITIES AND RECOMMENDATIONS FOR MODES OF IMPLEMENTATION

In setting implementation priorities and in evaluating modes of implementation, several principles have been used.

(1) Accept that with AID's limited budget, AID cannot address all trade and investment obstacles.

(2) The trade and investment program should focus on a limited set of priority problems where AID activities can make a significant impact on increasing Tunisian export performance and U.S. investment in Tunisia.

(3) Program should meet private sector needs, both Tunisian and U.S., and resources should go to them as directly as possible.

(4) Activities should take into account AID's limited personnel resources. Programs should be designed so that AID personnel do not devote a majority of their time to program administration.

(5) Trade and investment program components should be coordinated with each other and other AID activities to generate synergies between them.

Policy Analysis: The priority for policy analysis assistance is over the next two years as the government completes the implementation of the first phase of its economic reform program. AID should consider reprogramming some of the programs in the current program to be able to meet policy analysis needs in the next two years. As the current most important policy problem is the delay in import liberalization, AID should concentrate its policy analysis activities in helping the government (Ministry of Finance) design a sectoral timetable of import liberalization, so that the private sector will have a timetable with which to plan their enterprise level adjustment programs. Since the World Bank is already quite involved in assisting the government with its trade adjustment program, AID should coordinate its policy analysis activities with the World Bank.

Direct Promotion: Direct promotion of U.S. investment should begin in the immediate program to build the framework for an expanded program in the medium term starting in 1992. It is expected that over the next two years, U.S. investment interest should build providing the demand basis for an enlarged program in the medium term. It is recommended that the promotion campaign target European subsidiaries of U.S. firms in Europe, as they will tend to be better informed about Tunisia than firms based exclusively in the U.S.

What institution should serve as the institutional base of this U.S. firm-oriented investment promotion campaign is a key question to be answered by program designers. At this point, it is suggested that this direct promotion program be administered through the newly formed Tunisian American Chamber of Commerce. The Tunisian American Chamber of Commerce (TACC) is a totally private sector institution, unlike other Chambers of Commerce and UTICA which receive sizeable financial support from the government. In addition the U.S. focus of the TACC would support the U.S. orientation of the promotion. Currently TACC does not have the administrative or institutional capacity to conduct such a comprehensive promotional campaign. With AID assistance, TACC could develop these promotion capabilities.

In selecting the institutional base for a direct promotion program directed towards U.S. firms and their European subsidiaries, several criteria should be used. Experience has shown that investment promotion has been most effectively supported by AID through private or independent quasi-governmental agencies. Government agencies tend to be overly bureaucratic and government salary restrictions make it difficult to hire qualified professionals with private sector experience or orientation. In addition, the organizational goals of the institution are vitally important criteria. One must determine if the organization will act to promote greater investment and broader private sector ties, or whether they will act to serve the more parochial interests of their members. Local Chambers of Commerce often limit investment promotion activities in areas which could create potential competition for their members and also restrict their distribution of business leads to firms most closely connected with the leadership of the organization. Smaller, potentially more dynamic firms, are often excluded.

It is not extremely important that the institution have experience with investment promotion. This can be learned and expertise can be provided by AID to develop these capabilities. Nor is it important that the institution be large; investment promotion can be more effectively conducted with a small highly professional staff. A Director and two or three investment counsellors with adequate support staff can handle up to 600 new leads each year.

An example of how a small and newly established institution can be developed into an effective investment promotion organization is the Investment Promotion Center of the Dominican Republic. Before AID helped develop this institution, its staff included a director and a secretary. It was, however, private and had as a primary objective to promote investment in the Dominican Republic. With AID support to develop staff, provide specialized consulting services and general budgetary support, the institution has become one of the most successful investment promotion agencies. Employment in export-oriented investments in the free zones, where the IPC promotes investment has more than doubled to over 100,000 persons and exports exceed half a billion dollars.

It should be noted that the TACC includes as one of its primary goals the broadening of private sector ties between Tunisia and U.S. firms, which includes European subsidiaries. Although much of its current activities are devoted to assisting current members with their government relations, they are already actively involved in promotional efforts. These promotional efforts are not supported by professional staff, but they indicate that the organization's goals include promotion.

In addition to conducting a range of direct promotion activities, it is expected that TACC would provide a range of informational and business services as well to both U.S. investors and Tunisian members. As such, AID assistance would be used to develop the TACC into an organization that can conduct a sophisticated and effective direct promotional program and business assistance center for U.S.-Tunisia business related transactions. In regard to direct promotion, it is expected that the TACC work closely with its sister organization in the U.S., the U.S.-Tunisia Business Council, and with U.S.-European Chambers of Commerce. It would also be expected that the expanded TACC would work closely with the regional Tunisian Chambers of Commerce, FEDEX, API and CEPEX in both its direct promotion and business assistance activities.

<u>Business Assistance</u>: Given the range of weaknesses of Tunisian firms, a range of business assistance programs could be justified. However, given AID's limited budget only a few can be effectively addressed. In setting the priority, one must not only look at what is needed most in Tunisia, but also what problems AID can address most effectively. It is recommended that AID concentrate its business assistance activities in a few of the highest priority areas rather than providing a full range of services that would follow the incubator approach to assist local exporting firms.

It is extremely difficult to implement an incubator approach successfully. Most importantly, with the broad variety of services needed under an incubator program, it is difficult to maintain a high quality of service to the local firms in all areas and remain within an acceptable budget. With specialization in one or two areas, one is better able to control costs and maintain quality standards. Moreover, the incubator approach requires a high degree of coordination between different activities which increases management demands on AID. Finally, the incubator approach can only help a small number of firms. If just a few of these firms are unsuccessful for a host of potential business reasons beyond the control of the project, much of an incubator project's efforts would be wasted.

The **lack of export market information** was cited as the most pressing problem inhibiting exports by the private sector itself. Rather than following the usual course of action of assisting a centralized public or semi-public organization to provide this information, it is recommended that AID work to encourage the development of competitive, private fee-based provision of information services. Both World Bank and USAID reviews of exporter assistance programs have found that helping firms meet the cost of private fee-based assistance meets firms' information needs better, and thereby promotes exports more effectively than providing resources to a centralized export promotion agency.

The reasons for this recommendation are multiple. Centralized agencies find it difficult to provide the specialized information that is most critical for successful exporting. They are capable of providing generalized information, such as statistics, export regulations, and perhaps the names and addresses of key distribution firms, but rarely can they provide a detailed analysis of the specific problems faced by a particular company. Secondly, Tunisian firms should not have to rely on a monopoly provider of export market information.

Almost all private sector firms interviewed conveyed their disappointment with CEPEX's provision of market information. If CEPEX has been unable in its over fifteen years of existence to develop a capacity to provide effective information for the private sector, it is not at all clear that it will be able to do so now, even with AID assistance. In addition, CEPEX is already in the middle of establishing a new computerized information network. As an institution it is not lacking in resources, rather its problem seems to be one of utilizing them more effectively. AID could be contributing to the problem by providing yet more resources.

It is also recommended that AID encourage the development of these private information service firms by assisting Tunisian firms use of them for export-related information needs. There are currently only a few firms that are capable of providing these specialized services at present. Some of them are staffed by former CEPEX employees. With an AID program, it is expected that more firms would develop these capabilities, and the increased competition would lead to improvements in the quality of service.

AID would pay a declining proportion of the fees. Perhaps starting at 50 percent in year one, and declining by ten percentage points each year, such that by the end of year five, there would be no subsidy. This type of program meets several objectives: (1) it provides resources directly to private exporting firms; (2) it is relatively easy to administrate, in that an institution does not need to be developed by AID to provide the resources. Rather AID is using market incentives to do the work for them; and (3) the quality of service is controlled by the fact that private firms are paying for it. They will not use the services for long unless it is considered valuable.

It should be noted that it is also not recommended that better information services be channeled through FEDEX or regional Chambers of Commerce. Based on information from interviews, and the almost daily notices in the newspaper announcing export fairs and other export promotion activities, it is clear that these organizations are already involved in providing general information on export policies and opportunities as well as generating contacts between Tunisian firms and foreign potential partners. These organizations are not staffed appropriately to provide specialized information. Accordingly, it is expected that firms will rely on these institutions and CEPEX, for general information, and use private firms for more specific specialized information needs.

<u>Lack of Export Marketing Skills</u>: The legacy of past import-substitution policies has left Tunisian firms with little marketing skills, since marketing was not a primary problem in highly protected and uncompetitive local markets. For exporting, especially when Tunisian firms want to move beyond licensing arrangements and capture more value added by having more control over their products, effective marketing is vital. It is clear that a program that effectively trains Tunisian executives how to market their goods would help accelerate the process of developing dynamic Tunisian export-oriented firms.

While formal training is helpful to teach marketing skills, it is clear that on-the-job experience working with professionals is the best teacher. This necessity for on-the-job experience complicates AID's provision of effective training of export marketing skills.

It is suggested that a program operated under an AID contract be established that provides a series of formal training sessions combined with overseas experience, either as internships for mid-level management and shorter study tours with firms for senior management. Entrepreneurs International could possibly be used to organize the study tours for senior management. However, since Europe is the primary market for most Tunisian products, it would be more useful to find some way to place participants in Europe. In order to facilitate this overseas placement, the program might be used primarily for joint-ventures, where Tunisian professionals would be sent to the partners home marketing office. If internships cannot be organized, an alternative may be to contract marketing professionals who are involved in training to travel with Tunisian participants on foreign marketing trips to advise them in the field.

It is important that this program not consist of a series of seminars for different persons, but rather comprise a formal course with overseas experience in the middle, for which firms pay for a significant portion. If provided free of charge, it will not be taken seriously. If firms are willing to pay a significant amount for training, it is more likely that they will try to use effectively the new skills being taught. AID could help organize the training and pay for part of the costs, but should not provide the training free of charge.

The formal training portion of this type of program could be provided by extension services of many U.S. business schools or through PRE's Financial Market Project. A list of U.S.-based institutions that could provide this training is included in Annex V. In addition, this program might be combined with the mid-career export promotion training program provided by a local business school, ISG.

Financial Institution Training To Encourage Foreign Portfolio Investment: This program can be used to accomplish several objectives. The primary objective is to train personnel at private sector financial institutions in the financial and marketing skills necessary to facilitate foreign portfolio investment. Judging from the experience of other countries which are in the midst of similar comprehensive capital market development programs, foreign financial institutions can play a vital in role in transferring this "financial technology" and also in facilitating access to foreign investor markets. While local capital markets are not now sufficiently developed to support a program such as this, by 1992 financial markets and local financial institutions should be ready.

To provide incentives for joint-ventures with foreign financial institutions, preferably U.S., and at the same time provide training, USAID could pay a part of the costs for the training of Tunisian personnel in investment banking and securities trading, working for either U.S.-owned firms operating on-shore in Tunisia or for joint U.S.-Tunisian ventures. Given that many Tunisian banks already have non-U.S. partners, and the low probability that many U.S. financial institutions will establish operations soon in Tunisia, AID will probably want to offer this service to all financial institutions now. To encourage U.S. participation, AID might consider paying for higher percentage of the training costs for firms associated U.S. financial institutions.

This program helps to meet several objectives: (1) the development of capital markets and local financial institutions to service foreign portfolio investment; (2) the encouragement of U.S. joint-ventures and investment in the Tunisian financial sector, and thereby increasing the links between private sectors of both countries; and (3) the development of capital markets to provide investment capital for export industries.

Recommendations for Current Trade and Investment Program

The current USAID/Tunis trade and investment program attempts to do to many things. As a result the program lack a cohesive focus and cannot provide enough resources to any one area to make a significant contribution. All of the pieces of the program can be justified in that they address important problems or provide assistance to institutions that are helping to promote exports and investment. However, provided piecemeal, it is not clear that these programs will have a significant and lasting effect. Accordingly, it is recommended that the program limit its activities and focus them into a few areas which will then be reinforced and strengthened in the medium-term program.

An example of the piecemeal nature of the current program is the Seminar on U.S.-Tunisia-Europe 1992. While it is clearly important and useful to promote and inform U.S. firms about the possibilities Tunisia provides in meeting their European business objectives for the Single European Market, if this seminar is not conducted within the scope of an organized promotional program that will systematically follow-up on leads generated in this meeting and organize following sessions and information exchanges that build on each other, this activity will be wasted.

It is recommended that AID meet its existing commitments and reprogram the rest so that it meets two primary objectives. The first being policy analysis to ensure that the Tunisians are able to implement the final elements of their economic reform program, especially regarding import liberalization. In addition, AID may also want to assist the Central Bank and Ministry of Finance in putting together a comprehensive medium program for establishing the convertibility of the dinar. This is an official objective of the government, and the extensive liberalization of foreign exchange controls and the creation of inter-bank foreign exchange markets are important intermediate steps to this objective. Yet, a program to achieve convertibility has not been identified.

The second priority is the beginning of a comprehensive program to promote U.S. investment through the TACC and its sister organization the U.S.-Tunisia Chamber of Commerce. It is recommended that staff obtain training on how to conduct effective investment promotion and that technical assistance be provided to help them establish investment promotion capabilities. AID may consider inviting selected personnel from other Tunisian investment promotion intermediaries to some of these sessions. In addition, strategic technical assistance on investment promotion could be also be provided to other institutions, such as local Chambers and API, as long as the expert is in Tunisia.

ANNEX I

REVIEW OF THE PRINCIPAL CHANGES IN TUNISIAN TRADE AND INVESTMENT LEGISLATION AND REGULATIONS

A. Liberalization of the Financial Market

In less than a year between August 1988 and May 1989, the Tunisian legislature passed a series of laws which clearly laid out the legal framework for the development of more competitive broader and deeper financial market. With this legislation in place, it is now up to economic actors and financial intermediaries to take advantage of the opportunities created by these reforms to broaden and deepen local capital markets and the range of financial services offered.

Financial intermediaries, especially the brokerage divisions of banks, must now train their staffs to prepare them for the new types of services that must be provided. For enterprises, it is a question of opening up their capital to outsiders. Already, there is increased demand for stocks and bonds of private enterprises by the public, but the supply is not being provided.

1. Law # 88-92 of August 2, 1988 -- Societes d'investissement (Mutual Funds)

The object of this law is to promote savings and to develop local capital markets by providing a vehicle to mobilize capital for investment in securities. "Societes d'investissements" are like U.S. mutual funds in that they provide a vehicle for collective investment. They can be created in two forms, with fixed capital, "societes d'investissement a capital fixe" (SICAF), or with variable capital, "societes d'investissement a capital variable" (SICAV).

Since the passage of the law 10 SICAFs have been created out of 25 applications. However, these SICAFs are not playing the role for which they were intended. Rather than serving as vehicles to mobilize and invest the savings of passive public investors, these SICAFs are being used as internal financial structures by Tunisian holding companies to allocate financial resources between companies.

2. Law # 88-111 of August 18, 1988 - Regulation of "emprunts obligatoires" (bonds):

This law filled a legal void by clarifying and defining precisely the norms and conditions of publicly traded bonds, "emprunts obligatoire." There has been a positive response to this legislation. Since the legislation was passed, six new bond issues have been offered, compared to 11 bond issues in the previous ten years. However, there has been a dissipation of interest in the past months because of the refusal of the issuers (primarily banks) to compete over the interest rate. All of the bonds recently issued had identical conditions, even though interest rates in the local interbank money market have risen sharply. All of the bonds issued have copied the conditions of the government bond issue of November 1988.

3. Law #89-49 of March 8, 1989 - Financial Market

This law creates an advisory body which is to be consulted by the administration regarding financial market problems and issues. The law also defines the objectives and institutional character of the local stock exchange, la Bourse des Valuers Mobilieres de Tunis. In addition, to being a market for traded securities, the Bourse will also be responsible for the supervision and control of capital markets. However, the law envisions that the surveillance function will detached and made independent in the future.

The law also sets the conditions and guarantees that stock brokers must have and provide in order to be allowed to trade Tunisian securities. Banks that want to keep their brokerage functions must reorganize these services by May 1, 1990, so that they independent from their banking services. Of the banking institutions interviewed during this study, several reacted favorably to this law (BIAT and UIB), while others (CFCT) consider this required change to be a constraint.

B. Investment Codes: Industrial and Agricultural

1. Law 87-51 of August 2, 1987 -- Industrial Investment Code

The new industrial investment code removes all constraints on new investments which do not request special incentives. Incentives, which range from lower tax rates, exoneration of import duties, employment subsidies and partial payment for feasibility studies, are limited to investments dedicated to export, those which provide high levels of employment, those located in depressed areas, and those which provide and transfer advanced technologies. All companies requesting special incentives must receive a formal agreement from API, the Tunisian investment promotion agency. Since the majority of new investments request access to these special incentives, API still has considerable influence regarding private investment decisions. However, it should be noted that for export-oriented investments, approval by API of special incentives is close to automatic and based on clearly defined conditions.

This code also provides non-residents the right to transfer the revenues and profits of their Tunisian activities, however, the transfer still must be approved by the Central Bank. Currently, this approval is automatic, but could be used in the future to restrict the repatriation of funds.

Another innovation introduced by the code is the possibility of allowing export-oriented enterprises to sell up to 20 percent of their production on the local market. However, this percentage was subject to formal authorization by public decree. This decree was not issued until eight months later and then authorized export-oriented firms the right to sell only 5 percent of production and 10 percent in exceptional cases.

2. Investment Code for agriculture and fishing - Law 88-18 of April 1988

This code unifies into one legal code all the regulations regarding investment in the agriculture and fishing sectors. Certain fiscal and financial advantages are given for the use of more advanced technologies and for location in depressed regions.

A key part of the code for foreign investors is that which stipulates conditions regarding access to land. The code requires that foreigners' access to land for agricultural purposes be limited to the renting of the land for a period no greater than 30 years, and only after approval by the Ministry of Agriculture. In addition, APIA, the investment promotion agency for agriculture, must also provide approval for foreign investments in this sector.

C. Liberalization of Imports

As part of its five year plan Tunisia has set the objective to substantially liberalize its imports which prior to 1987 were subject to severe quantitative restrictions which provided very high levels of effective protection to domestic industry.

The liberalization of imports consists of two parts. The first is eliminate most quantitative restrictions, and to rely on tariffs to provide protection for domestic industry. The program calls for 80 percent of imports to be free of quantitative restrictions by 1991. The second component is to reform the tariff system, by narrowing the range of tariffs to make a more consistent rate of protection and to lower the effective rate of protection. Maximum tariffs have been reduced to 41 percent, while the minimum tariff has been set at 15 percent. The program sets a goal of a total effective rate of protection of 25 percent to be achieved by 1991.

Initially, import liberalization progressed rapidly. In the first year, almost all, capital goods, intermediate goods, and raw materials, were liberalized. These goods represented about 53 percent of imports. Since, early 1988, however, only more of imports have been liberalized. This initial phase of liberalization was politically easy, because few of the goods liberalized are produced locally.

Import liberalization is now stalled. Not only are more goods not being liberalized, but a provision in the new industrial code to allow export-oriented firms to sell up to 20 percent of production on the local market, has been limited to 5 percent, or 10 percent in exceptional cases. Government officials believe that their initial program does not provide enough protection against "dumping", nor for infant industries. Until "anti-dumping" provisions are established and a more effective program for infant industries including potentially higher supplementary tariffs is implemented, further import liberalization is likely to remain blocked.

D. Fiscal Reform

1. Indirect Taxes: Introduced in July 1988

In July 1988, a value-added tax (VAT) was introduced, with three different rates for different types of goods, a basic rate of 17 percent, a higher rate of 29 percent for luxury goods, and a lower rate of 6 percent for basic necessities and professional services. Exports and agriculture are exempt from the payment of the VAT.

2. Income Taxes: January 1990

Income tax reforms which take affect in 1990 are directed at simplification, the lowering of marginal rates, and removing the excessive burden on wage earners. The top marginal rate has been lowered to 35 percent from 77 percent. Much of the burden of payment will fall on the employer, rather than the employee, to allow the maintenance of the net salary of most workers. With a less onerous tax rate and simplified procedures, it is expected that professionals and others who earn income from non-wage sources will be encouraged to pay income taxes. Under the new income tax regime, there is much less discrimination between sources of income. All income is taxed according to the same rate schedule, except for revenue reinvested in priority investment sectors, which is exempt from income tax, and a lower rate for stock dividends and capital gains from stock sales in order to encourage the development of Tunisian capital markets. Capital gains on security sales of non-residents is also exempt from income tax.

ANNEX II

SYNTHESIS OF INTERVIEWS

Interviews were conducted with leading Tunisian entrepreneurs, top banking officials, representatives of specialized international financial agencies, and officials of Tunisian, U.S. and foreign government agencies. A major point upon which all agreed was that the investment environment offered by the current Tunisian investment code for exporting firms is very competitive with those of any other developing country. In addition, all agreed that the administrative environment for investment and exporting is vastly improved. Administrative measures, now, presented only minor obstacles to investment and exporting.

Export firms contend that Customs authorities make it very difficult to receive the authorized reimbursement of import duties on inputs used for exported goods.

In addition, exporting firms complained that marine transportation to secondary exports, such as North America and Gulf states, is costly and irregular, which limits exports. For some goods, it is less expensive to ship by air than by sea.

Even with the attractive incentives and openness of the Tunisian legal and policy environment, executives of official financial agencies contended that Tunisia was not a priority investment site for Western cooperations. According to officials from international financial agencies, business promotion agencies and U.S. agencies involved with foreign trade and investment, U.S. firms were not interested in Tunisia primarily because they know little about Tunisia, while French firms prefer Morocco because they find Moroccan firms more eager and open to arrange joint-enterprises and other types of business arrangements than Tunisian firms.

Most individuals interviewed also recognized that the liberalization of imports was slowing down. Tunisian government officials contended that this "pause" was needed to protect local producers against dumping and to provide improved protection to "infant industries."

Both banking executives and government officials agreed that a definitive solution to problems created by continuing foreign exchange controls will be the achievement of the convertibility of the dinar.

Non-resident exporters and banks identified the Tunisian labor code to be a major irritant and potential constraint to greater foreign investment. They complained that the Labor Code restricts firms' flexibility regarding labor resources. Most annoying for them was the difficulty in dismissing employees. Resident firms, however, explained that the Labor Code presented no problems if one maintained good communication with employees and properly documented any intention to dismiss a worker.

Most exporting firms explained that a lack of information on foreign markets was a major obstacle to greater exports. They felt that CEPEX and other government agencies were not able to provide sufficient and effective market information. Many contended that a major problem with these agencies is that the personnel is poorly trained and lacks proper guidance and experience for information retrieval and dissemination purposes.

Firms also mentioned a need for more effective means to establish relations with foreign firms. In general, persons interviewed felt that leads generated through current efforts to establish relations such as seminars and meetings were not followed through sufficiently by the sponsoring agency of Tunisian firms themselves. Finally, one foreign chamber of commerce mentioned the possibility of creating a central market or clearinghouse for sub-contracting by foreign to Tunisian producers.

ANNEX III

INTERVIEWS

Washington D.C.

3/1/90

World Bank
Mr. Sikander Rahim - Country Economist/EMENA
Ms. Aysegul Akin-Karasapan - Economist/EMENA

International Finance Corporation
Mr. Fares Zaki - Investment Officer/Department of Investments

Tunsian Embassy
Mr. Elyes Kasri - Commercial Attache

3/2/90

U.S.-Tunisia Business Council/Alliance Capital
Mr. Elias Marto - President Alliance Capital

FIAS (Foreign Investment Advisory Service)
Mr. Charles Michelet

Exim Bank
Mr. Frank Wilson - Loan Officer

Ernst & Young
Ms. Sydney Lewis - International Management Consultant

Tunis

3/5/90

AID
Ms. Monica Mcknight - Private Sector Officer
Mr. Rashid Nafti

IFID
Mr. Mahmoud Besbes, Director
Mr. Ezzedine Larbi, Director des Etudes
Mr. Rashed Bouaziz

3/7/90

BTEI (Banque de Tunisie et des Emirats d'Investissement)
Mr. Asissa Hidoussi, President-Directeur General
Mr. Smair Marrakchi, Conseiller

Cotunace
Mr. Taoufik Ben Jemia - P.D.G.

CEPEX
Mr. Kamel Belkahia - Directeur General

FEDEX
Mr. Ali Nikai - Directeur

3/8/90

UIB(Union Internationale des Banques)
Mr. Hassine Trad - Conseiller (ex. Secretaire General de la Bourse de Valeurs Mobilieres)

CFTC(Credit Foncier et Commercial de Tunisie)
Mr. Chedly Fayache - Directeur de Credit

Banque Centrale
Mr. Ahmed El Karm - Directeur

Citibank
Mr. Bradley Lalonde - Directeur General

3/9/90

LIPP
Mr. Roger Bismuth - PDG, member of the Tunisia-U.S. Chamber of Commerce

Maghreb Alimentation (subsidiary of LIPP)
Mohamed Abid - Directeur Export

COTIP
Mr. Abdelkrim Ben Abdallah - P.D.G. (President du Conseil des Chambres de Commerce et d'Industrie de Tunisie

BIAT(Banque Internationale Arabe de Tunisie)
Mr. Essedine Saidane - Directeur Cenral Banking Operations

<u>Bourse de Valeurs Mobilieres</u>
Mr. Tahar Adassy - Senior Advisor, Financial Markets

<u>3/10/90</u>

<u>Tunisia American Chamber of Commerce</u>
Mr. Mohamed Moncef Barouni, President

<u>3/12/90</u>

<u>U.S. Embassy</u>
Ms. Elizabeth Dibble - Commercial Attache

<u>Le Fennec</u>
Slim El Fekih - PDG

<u>3/13/90</u>

<u>API</u>
Mr. Mondher Chahed - Directeur
Ms. Ennaifer Sahla - Directeur de l'Information

<u>EEC</u>
Mr. Harold Cool - Advisor
Mr. Karl Von Helldorff - Chief of Mission

<u>AID</u>
Ms. Monica McKnight

<u>3/14/90</u>

<u>BCMA(Banque de Cooperation Maghreb Arabe)</u>
Mr. Jalec Gamaoun - Directeur du Departement International

<u>Mr. Ridho Fechiou</u> - Ex-directeur de l'Insitut des Hautes Etudes Commerciales, Univerite de Tunis

<u>3/15/90</u>

<u>Tuniso-Allemand Chambre de Commerce</u>
Mr. Ranier Herret - Secretaire Generale Adjoint

<u>APIA (Agence de Promotion des Investissement Agricoles)</u>
Mohamed Dridi - Directeur de la Promotion
Mohamed Jazri - Directeur General Adjoint

<u>Connecta Tunisie S.A.P.L.</u>
Raouf Ben Debba - Directeur General

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(18) Zouari Abderrazak & Bouaziz Rached
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B : LE SECTEUR PRIVE EN TUNISIE

(1) Ahmed Belloumi
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(2) Ben Hadj Alaya Slaheddine
Le secteur privé en Tunisie. Institut Supérieur de Gestion Tunis, 1987.

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(2) Claude Felgon

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46

(5) K. Von Helldorf

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D : CODES ET LOIS

1/ Marché financier

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Loi 88-111 du 18 Août 1988 portant réglementation du marché obligataire.

Décret 89-530 du 22 1989 portant application de la loi n°88-111 du 18 Août 1988 portant réglementation des emprunts obligataires.

Loi 88-92 du 2 Août 1988 portant création et gestion des sociétés d'investissement.

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2/ Codes des Investissements

Loi 87-51 du 2 Août 1987 portant code des investissements industriels.

Loi 87-50 du 2 Août 1987 portant création de l'Agence de promotion de l'Industrie.

Décret 87-1281 du 26 Octobre 1987 fixant la liste des industries manufacturières.

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Décret 88-50 du 12 Janvier 1988 fixant l'organisation administrative et modalités de fonctionnement de l'API.

Décret 88-749 du 12 Août 1988 fixant le pourcentage des ventes pouvant être effectuées en Tunisie par les entreprises totalement exportatrices.

Loi 88-18 du 2 Avril 1988 portant promulgation du Code des Investissements Agricoles et de Pêche.

Loi 88-110 du 18 Août 1988 fixant le régime applicable aux sociétés de commerce international.

3/ Codes fiscaux

Loi 88-61 du 2 Juin 1988 instituant la taxe sur la valeur ajoutée.

Loi 88-62 du 2 Juin 1988 instituant les droits de consommation.

Loi 89-114 du 30 Décembre 1989 portant promulgation du code de l'impôt sur le revenu des personnes physiques et de l'impôt sur les sociétés.

Annex V
U.S. Training Institutions

American Graduate School of International Management
William F. Kane, Director
Thunderbird Management Center
Glendale, AZ 85306
(602) 978-7115
- Thunderbird has no Francophone classes, although they can work in Spanish and will tailor special classes to a client's needs.

*Atlanta Management Institute (IMPACT)
David Bellamy/Julia Tidwell
2175 Parklake Drive, NE, Suite 220
Atlanta, GA 30345
(404) 934-3031
- IMPACT has a large course offering in French.

*California State Polytechnic University
International Center
3801 West Temple Avenue
Pomona, CA 91768-4058
(714) 869-3267

Center for Development and Population Activities
1717 Massachusetts Avenue, NW, Suite 202
Washington, D.C. 20036
(202) 667-1142
- CEDPA is an organization aimed at educating Third World women, thus their workshops are exclusively for women. They have both marketing and management courses.

Clark Atlanta University
Tejan Muata
Administrative Assistant
International Programs
223 James P. Brawley Drive, SW
Atlanta, GA 30314-4391
(404) 880-8617
- They have francophone courses.

Colorado Institute for International Executives

Spring Institute
Marna Ann Adkins
5900 South Santa Fe Drive
Littleton, CO 80120
(303) 431-4003

- Programs are primarily for mid-level managers.

Coverdale Organization

Kathryn Goddard
Coverdale Organization, Inc.
2007 North 15th Street, Suite 209
Arlington, VA 22201
(703) 528-1990

- Coverdale can do courses in French and prefers to do their training in-country. They are strong on strategic planning and negotiation training.

*Duke University (919) 684-5310

Dr. Jean Hauser
Assistant Dean
Fuqua School of Business, Executive Education
Durham, NC 27706

- Duke has an extensive executive education program with courses ranging from one to four weeks. Programs can be tailored for special needs and taken overseas, but they do not teach in French.

Institute for Training and Development

Linda Abrams
150 Fearing Street, Office 25
Amherst, MA 01002
(413) 549-4714

- The Institute for Training and Development will tailor programs, take them overseas and teach in French.

International Management Group

2020 Connecticut Avenue, NW
Washington, D.C. 20008
(202) 667-8270

- The International Management Group will teach programs in French and is willing to train overseas. They ran a course on privatization in French this past year.

Management Training and Development Institute
Robert C. Morris
Executive Director
P.O. Box 23975
600 Water Street, SW
Washington, D.C. 20026
(202) 646-7910

- MTDI will do seminars in French either in the U.S. or overseas. They offer a variety of managerial development courses, including the use of micro computers.

PRAGMA
116 East Broad Street
Falls Church, VA 22046
(703) 237-9303

University of Illinois at Urbana-Champaign
Professor Stanley W. Steinkamp
Director
Department of Economics, Master of Science Program
Box 27, 311 David Kinley Hall
1407 West Gregory
Urbana, IL 61801
(217) 333-7651

University of Pittsburgh
Riall Nolan
Director
Juli Gasperi
Administrative Coordinator
GSPIA, Economic and Social Development Programs
3G03 Forbes Quadrangle
Pittsburgh, PA 15206
(412) 648-7610

- The University of Pittsburgh runs a variety of management training programs in French, Arabic and Spanish.

University of Southern California
Pauline Arneberg
Director
Center for International Training and Development
VKC 263
Los Angeles, CA 90089-0041
(213) 743-8111

World Center for Development and Training
Dr. Michael Marquardt
Director
1730 North Lynn, #410
Arlington, VA 22209
(703) 524-2700

- The Center has a number of different programs tailored to the individual's needs. It issues a "diploma" for a training program which it runs. The program lasts anywhere from one month to one year and includes hands-on seminars, meetings and interviews with experts in the field of interest.

World Trade Institute
Mr. Vincent Seglior
Manager, International Training
One World Trade Center, 55W
New York, NY 10048
(212) 466-3175

- The World Trade Institute will do training upon request. The Institute does not currently run programs in French, although they are considering developing in that area.

<u>For more information on U.S. Training Institutions contact</u>:

Partners for International Training
Training Resource Center
1707 L Street, NW
Suite 500
Washington, D.C. 20036
Phone: (202)429-0810
Fax: (202)429-8764

* Institutions with pre-designed marketing courses. Other institutions listed may be able to tailor-make courses and also provide financial market training.

61