

The Tunisia-European Union Free Trade Area Fourteen Years On

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On 17 July 1995, Tunisia signed a Euro-Mediterranean Association Agreement (AA) with the European Union and its Member States. It was the first to do so among the South Mediterranean countries engaged in the Barcelona Process. Although this agreement was not ratified and did not officially enter into force until March 1998, Tunisia decided to begin applying it as of January 1996. The AA has several objectives in a variety of spheres (economic, social, cultural and financial), the main one being to liberalise and facilitate the exchange of goods, services and capital. On the practical level, the most fundamental decision included as part of the agreement was the establishment of a Free Trade Area (FTA) among the signing countries, at first limited to the exchange of industrial products. It was understood that the project would be progressively implemented according to a timetable spread over the course of twelve years. Since industrial products from Tunisia were already admitted to the EU free of customs duties by virtue of the cooperation agreement of 1976, the real implications of the new agreement lay in the dismantling of customs barriers (customs duties or taxes having equivalent effects) limiting Tunisian imports of industrial products from the European Union. Agricultural products and services were to be the object of subsequent negotiation as of 2001.

This agreement at first formed part of the political process of the Barcelona Conference as well as of the process of liberalisation of Tunisian foreign trade begun in the late 1980s with a structural adjustment programme (as of 1986) and Tunisia's accession to the General Agreement on Tariffs and Trade (GATT, as of July 1990). Nevertheless, it was clearly a strategic agreement for Tunisia and it was considered,

particularly at the start, as a real challenge for the country. Some feared that a sizeable part of Tunisian industry would not be able to withstand European competition and might disappear altogether. Others expected beneficial revitalising effects to be generated by competition and liberalisation. The hope was that revitalisation would push Tunisian companies to adopt more productive technologies and modernise their management practices, which could result in an increase in their productivity and therefore an improvement in their competitiveness, and by extension, the growth of the Tunisian economy. Even the companies that had been protected for a long time and produced only for the local market would be obliged to change their attitudes and take part in these promising dynamics in order to survive. By the same token, the opening of the Tunisian economy would have the effect of reorienting resources towards more profitable, more competitive activities. The establishment of the Tunisian economy as part of a broader, more advanced region would supposedly lend it new impetus and definitively improve general well-being.

At the beginning of 2010, Tunisia is now in its fifteenth year of implementation of the FTA, and the results are for the most part already visible. What have the real effects on the development of Tunisian trade with the EU and on its economic growth been? And in what manner has Tunisian industry adapted to the opening up of its economy to European markets? The present article attempts to reply to these questions, though limiting its scope to the effects of customs barrier dismantling. It does not cover the other facets of the AA, such as those relative to the movement of capital or socio-political aspects.

The article follows a simple progression: first, the main stages established under the FTA agreement are recalled, then the evolution of Tunisia's trade with the EU and the rest of the world after the onset of the FTA are analysed, and finally, some observations are made

Designation	Tariff Dismantling	
	Duration	Start Date
List I (raw materials and components)		immediate
List II (semi-finished products)	5 years	as of 1996
List III (products having an equivalent manufactured in Tunisia and considered competition)	12 years	as of 1996
List IV (sensitive products having a locally manufactured equivalent needing a longer transition period)	8 years	as of 2000

concerning the perspectives for completing its construction, considering that the negotiations on the liberalisation of trade in agricultural produce and in services are not yet at a very advanced stage within the FTA framework.

FTA Implementation Timetable

The implementation of the FTA was to take place in several stages according to a timetable and based on well-defined product lists annexed to the AA. The customs barriers on industrial products, particularly raw materials and components, that were not on any lists were eliminated from the start, if they hadn't been earlier. Table 16 summarizes the timetable established.

The lists were included as annexes to the Agreement. The products included on List IV, for which a period of adaptation was established, were products previously not exposed to a great deal of international competition. They were locally produced, went primarily to the national market and were strongly protected from any foreign competition. There was also a list of products excluded from the systematic dismantling of tariffs (such as pasta, yoghurt, carpets, etc.).

Moreover, agri-food products were granted special treatment. For these products, dismantling is only applicable to the industrial content (or element), the agricultural content, like all agricultural products, not yet being included in the FTA.

Moreover, certain "consumption taxes" could be and were maintained for certain products (wines and alcohols, automobiles, luxury products, etc.) despite dismantling, which can seem a contradiction, or at least a significant limitation with regard to the will to promote commercial relations. In fact, trade in such products was protected not only by customs tariff barriers but also by non-tariff barriers (NTBs).

The Agreement established a set of measures with a view to reducing the NTBs and fostering competition and transparency. Alliances and regulations likely to

interfere with free competition as well as "the abusive exploitation by one or several companies of a dominant position" were particularly to be eliminated. By the same token, all public aid that could distort competition was to be eliminated. A period of 5 years as of the date the agreement entered into effect was given Tunisia for adopting the measures and regulations necessary for strengthening competition and eliminating monopoly situations. In particular, State monopolies granted to certain commercial companies enjoying commercial privileges were to be abolished as well as all other forms of discrimination insofar as marketing of merchandise.

Tunisia was, moreover, called to take the legal and institutional measures necessary for the protection of intellectual property rights in accordance with international standards.

Impact of the FTA on Tunisian Economy and Trade

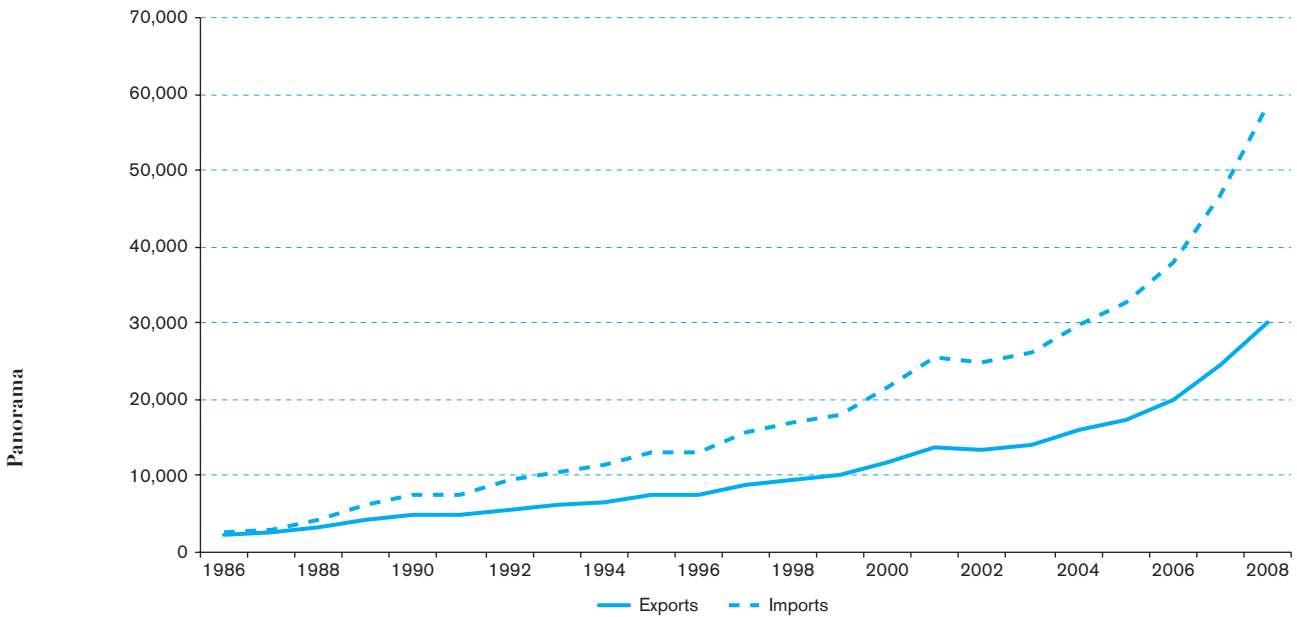
Apart from a few details and arrangements, the tariff dismantling established in the Agreement has been completed. The fourteen years since the beginning of this process have on the whole been characterized by good economic performance for Tunisia, in particular in the sphere of international trade. Its exports underwent their most rapid growth, nearly 9% on average, with imports right behind.

Most remarkable, however, is that Tunisian industry not only survived European competition but continued to grow, and exports of industrial products greatly contributed to the growth of trade.

During this period, the economy continued to grow at a rate approaching 5% on average and the industrial sector share in the GDP remained stable –between 28 and 30%.

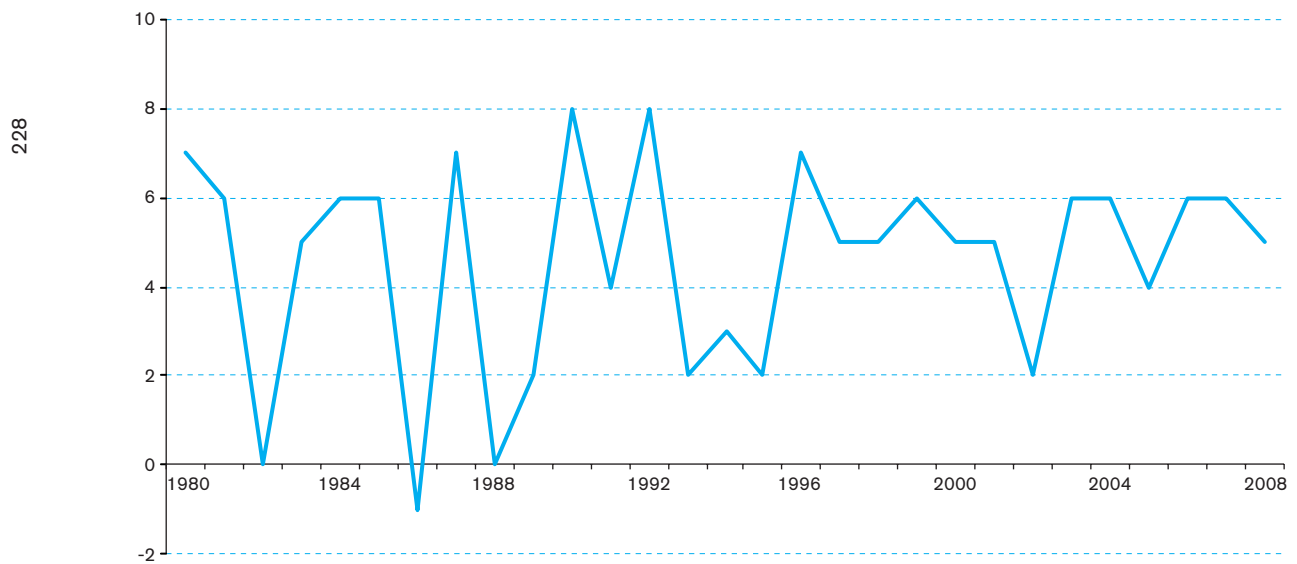
Well before signing the AA, the European Union was by far Tunisia's main trade partner (obviously, reciprocity was not the case, Tunisia being a small country in comparison to the EU). This situation has con-

CHART 11 Evolution of Tunisia's Overall Imports and Exports (1986-2008)



Source: World Bank, World Trade Indicators (WTI) 2010.

CHART 12 Growth Rate of Tunisian GDP (1980-2008)

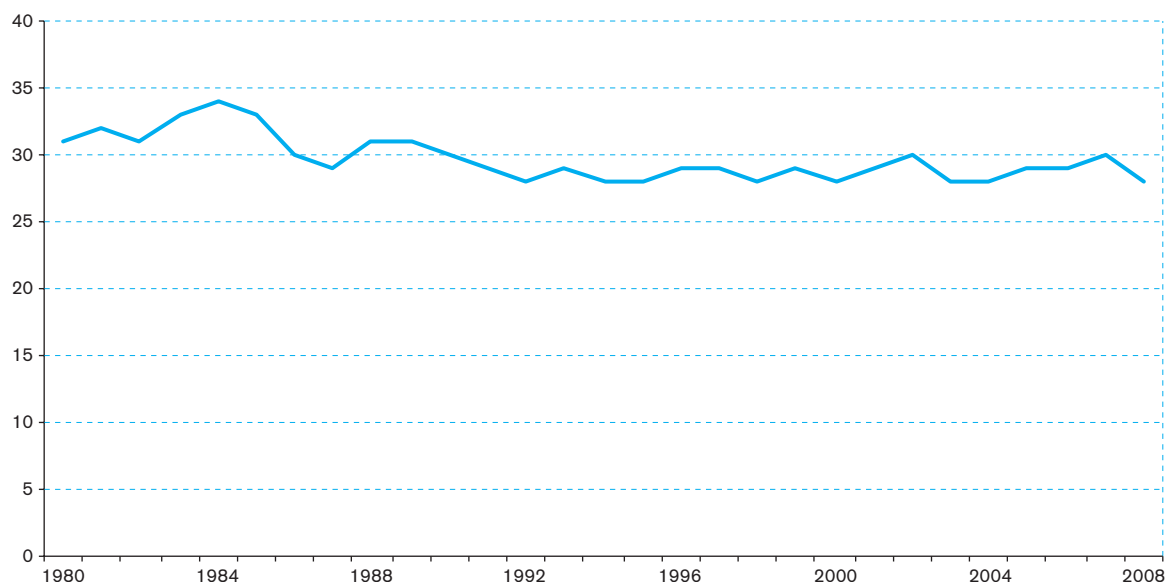


Source: World Bank, World Trade Indicators (WTI) 2010.

tinued, with Tunisia still importing some 65% of its needs in goods from EU countries and sending it nearly 80% of its exports. These exports experienced a growth rate of more than 9% from 2003 to 2008, whereas imports grew at an estimated average annual rate of 7.2%.

Because the rate of protection vis-à-vis the rest of the world was always considered relatively high and a source of distortion to the detriment of Tunisian interest, namely by multilateral organisms (WTO,

World Bank and the IMF), and in order to prevent the distorting effects arising therefrom, Tunisia concomitantly committed to reduce its customs duties on products from other countries. This process consisted in part in reducing its non-preferential rates as well as integrating other free trade areas. Tunisia's entry into the Greater Arab Free Trade Area (GAFTA) agreement and the Agadir Agreement (signed in 2007 with Morocco, Jordan and Egypt) are the most significant examples. Tunisian trade with its neighbours

CHART 13 Industrial Sector Share in Tunisia's GDP (1980-2008)


Source: World Bank, World Trade Indicators (WTI) 2010.

TABLE 17 Geographic Distribution of Trade in Tunisia: EU Share

Country	Imports (CIF)				Exports (FOB)				Balance	
	In MTND (millions of Tunisian Dinars)		As % of Total		In MTND		As % of Total		In MTND	
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
European Union	13,111	15,761	65.5	64.5	12,011	15,387	77.2	79.3	-1,100	-374
USA	568	723	2.8	3.0	204	214	1.3	1.1	-364	-509
Arabic Countries	1,832	1,985	9.2	8.1	1,447	1,761	9.3	9.1	-385	-224
Arab Maghreb Union (AMU) Countries	1,320	1,309	6.6	5.4	1,232	1,501	7.9	7.7	-88	192
Other Countries	4,361	5,799	21.8	23.7	1,877	2,025	12.1	10.4	-2,484	-3,774
Total	20,004	24,439	100	100	15,558	19,410	100	100	-4,446	-5,029

TABLE 18 Evolution of Tunisian Trade with the EU (in millions of Euros)

Year	Tunisian Exports to the EU	Annual Growth Rate	As a Percentage of Total EU Imports	Tunisian Imports from the EU	Annual Growth Rate	As a Percentage of Total EU Exports	Balance	Imports + Exports
2003	6,250		0.67	7,243		0.83	993	13,494
2004	6,754	8.1	0.66	7,621	5.2	0.80	867	14,375
2005	6,812	0.9	0.58	7,974	4.6	0.76	1,162	14,785
2006	7,614	11.8	0.56	8,718	9.3	0.75	1,104	16,332
2007	8,956	17.6	0.63	9,538	9.4	0.77	582	18,494
6m 2007 / 6m 2008	4,518 / 4,936	9.3	0.65	4,829 / 5,136	6.4	0.80	311 / 200	9,346 / 10,072
Average Annual Growth Rate		9.4	0.64		7.1	0.79		8.2

Source: Eurostat.

and with GAFTA and Agadir Agreement partners had always been relatively modest but has lately begun to progress quite significantly. Tunisian exports to these countries have recently reached nearly 10%. Nevertheless, the growth of Tunisian exports to these

countries primarily involves agricultural and agri-food industries products not the object of free trade with the EU.

With regard to trade with EU countries, on the other hand, Tunisia's main exports and imports involve in-

TABLE 19 Main Tunisian Exports to the EU (in 2007)

Products	Total Worldwide EU Imports		Tunisian Exports to the EU	
	Millions of Euros	Millions of Euros	%	As a Percentage of Total EU Imports
Textiles & Clothing	80,237	2,846	31.8	3.55
Mechanical and Electrical Machinery and Equipment	328,463	2,014	22.5	0.61
Mineral Industries	359,334	1,568	17.5	0.44
Total	1,426,008	8,956	100	0.63

Source: Eurostat.

TABLE 20 Main Tunisian Imports from the EU (in 2007)

Products	Total Worldwide EU Exports		EU Exports to Tunisia	
	Millions of Euros	Millions of Euros	%	As a Percentage of Total EU Exports
Mechanical and Electrical Machinery and Equipment	36,482	1,763	18.5	4.83
Mineral Industries	66,708	888	9.3	1.33
Footwear	177,180	849	8.9	0.48
Metals	94,197	809	8.5	0.86
Total	1,239,919	9,538	100	0.77

Source: Eurostat.

TABLE 21 Industry Upgrading Programme: State of Affairs in Late December 2009

	IAA	ICC	ICH	ID	IMCCV	IME	ITH	Total
Approved Applications	375	224	168	411	149	379	1,386	3,092
Percentage of Investment by Sector	20%	3%	8%	13%	19%	17%	20%	100%
Intangible Investment (including diagnosis) (in Millions of Tunisian Dinars)	96	43	44	74	57	124	205	643
Percentage in Intangible Investment	9%	24%	10%	11%	6%	14%	20%	12%
Subsidy Granted (in Millions of Tunisian Dinars)	133	27	53	98	85	136	186	718
Applications Being Considered	253	75	80	223	125	209	465	1,430
Rejected Applications	3		2		1	3	3	12
Total Applications	631	299	250	634	275	591	1,854	4,534

IAA: Agri-Food Industries; ICC: Leather & Footwear Industries; ICH: Chemical Industries; ID: Diverse Industries; IMCCV: Industries Relating to Construction Materials, Ceramics and Glass; IME: Mechanics Industries; ITH: Textile & Clothing Industries.

dustrial products. Textile and clothing products, followed increasingly by mechanical and electrical products, represent Tunisia's main exports to the EU. Tunisia accounts for more than 3.5% of EU imports in the textile and clothing sector. It is a relatively significant share if we compare this 3.5% to the total Tunisian exports to the EU as a percentage of total EU imports, which remains at some 0.65%. By the same token, it is components and mechanical and electrical machinery that represent the most significant share of Tunisian imports from the EU. Accounting for 4.8% of EU exports in this category, Tunisia is a small yet not insignificant market.

If Tunisia has managed to maintain its industry and industrial exports, it is, to a certain extent, thanks to its Industry Upgrading Programme (PMN) and the industrial modernization it has been undertaking since

the onset of the FTA. Companies eligible for the PMN are industrial firms or those providing services for industries and considered promising. This programme offers them technical and financial support and aims to improve their competitiveness and help them to prepare for competition by bringing human resources and technological capacities up to standard. Over 3000 firms have benefited from the programme and nearly 1,500 applications are being considered. Over 5 billion dinars (€ 2.6 billion) have been invested in this project.

It can thus be concluded that the Free Trade Agreement has, on the whole, boosted the economy and generated significant positive dynamic effects, even if in reality trade liberalisation is far from being complete. Not only does the FTA not cover trade in agricultural products or in services, but there are also

exceptions concerning industrial products. Some of these exceptions have proven to be quite wise. For instance, conditioning the import of cars to certain requirements, by virtue of which the exporting country commits to import vehicle components manufactured in Tunisia has contributed greatly to the development of this type of industries in Tunisia. In any case, certain aspects remain to be settled, namely concerning abiding by rules of competition and abolishing certain State monopolies, but this does not seem to constitute an object of friction between the two parties.

Perspectives for the FTA

Negotiations relative to extending the FTA to agricultural products and to services are still at a rather elementary stage. In 2001, however, a new protocol was established resulting in the modification of provisions annexed to the 1995 agreement concerning trade in agricultural products that has made quotas and their increase a constant. Hence, with regard to exports, the quota of olive oil exempt of customs duties has progressively increased, rising to 56 thousand tonnes as of 2005. Other beneficial provisions were established concerning fishery products. Reciprocally, agricultural products imported from the EU enjoy new tariff quotas, primarily concerning cereals. Other similar concessions in terms of reciprocal quotas seem probable and the two parties are likely to establish them. Nevertheless, despite the

ongoing negotiations, unconditional free trade in agricultural products, or anything similar, seems yet highly unlikely.

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With regard to trade in services, the two parties seem to have placed a great deal of hope in its development. Tunisia already obtains a great deal of its currency from tourism, EU citizens being its main customers, but it hopes to develop various other resources for which it has significant potential, mainly in the sectors of health services and professional services (accounting, engineering, architecture, etc.). However, developing the export of such services and drawing up a global agreement satisfactory to all parties involved remains a highly incomplete task. First of all, the parties must reach an understanding on the norms and models to follow.

In any case, all parties stand to gain from such development and a transition period and other upgrading programmes, as was the case for industrial products, can be envisaged.