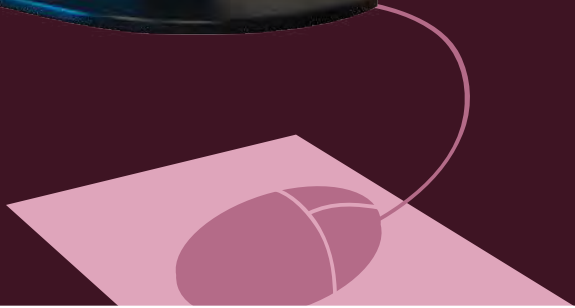




Tunisia's high potential in services sectors could become a source of dynamic growth and jobs creation, notably for graduates



From Rents to Competition: Reaping Tunisia's Services Potential | 08



From Rents to Competition: Reaping Tunisia's Services Potential

Tunisia remains an underperformer in the services sectors compared to OECD and emerging economies. The services sector plays a vital role for the Tunisian economy: with a 50-percent value added ratio, services represent 59 percent of GDP (48 percent for tradable services) and 62 percent of formal employment (39 percent for tradable services); trade in services also contributes to reducing the deficit of the Tunisian balance of payments. Between 2000 and 2008, however, the services sector grew by 5.9 percent a year on average in Tunisia, compared to 6.2 percent in middle-income countries (MICs) and 9.1 percent in Asia. Over the same period, the nominal value of services exports grew by 10 percent a year on average, compared to 16 percent in middle-income countries and 17 percent in East Asia. In spite of Tunisia's important and diversified potential in services, tourism still represents over 70 percent of the country's services exports, with a growth rate close to zero in 2009 and 2010.

The Tunisian services sector remains characterized by privileges, with a frequent absence of competition that facilitates the capture of rents by services providers to the detriment of consumers and of the entire economy. As discussed in Chapter Two, all main areas of services remain closed to investors and protected by restrictive regulations. Such a rent system encourages corruption and either the capture of the rents by the political power itself (for example, if the ruler takes stocks in a business) or the distribution of rents in return for bribes (for example, if administrative authorizations are given in return for bribes or hiring of individuals close to power). In Tunisia, nepotism and corruption reached their apogee in the last few years of the old regime, as demonstrated by the fact that the number of administrative authorizations granted and reforms implemented to increase competition shrank significantly. These problems continue today—three years have passed since the revolution, but the system of privileges remains unchanged.

Tunisia's high potential in services sectors could bolster the process of structural transformation and become a source of dynamic growth and jobs creation, notably for university graduates. The analysis presented in the previous chapter focused on the potential for industrial goods. However, several studies have highlighted that Tunisia holds large potential in exports of services, and in today's globalized world services sectors increasingly play a pivotal role for economic development (Khanfir and Visentin 2004; World Bank 2008a; Roland Berger 2009; Diop and Dee 2010; McKinsey & Co. 2010; Ben Romdhane 2011). It is estimated that a comprehensive liberalization of the service sector could boost GDP growth and investment by one percentage point and would reduce the unemployment rate by 2.4 percent (approximately 90,000 jobs; ITCEQ 2010)¹. Tunisia should aim to accelerate trade integration in services sectors in which it has a comparative advantage, which implies a significant potential for exports, and adopt an "offensive" strategy. These sectors have been identified in previous studies: ICT and offshoring, professional services, transport and logistics, tourism, and health (Khanfir and Visentin 2004; World Bank 2008a; Roland Berger 2009; McKinsey & Company. 2010; ITCEQ 2010).

As discussed in this chapter, however, existing policies undermine the growth and export of services sectors². Hence Tunisia needs to rethink its approach to services sectors, to move from rents to competition. Enabling services to become competitive (and in particular transport, logistics, and telecommunications) is also a prerequisite to enabling manufacturing to move into higher-value added activities and thereby realize the gains from global trade integration (see Chapter Four and Chapter Seven). Therefore, Tunisia should unilaterally pursue the horizontal and vertical measures required to improve competition and performance in services sectors. Challenges affecting specific services

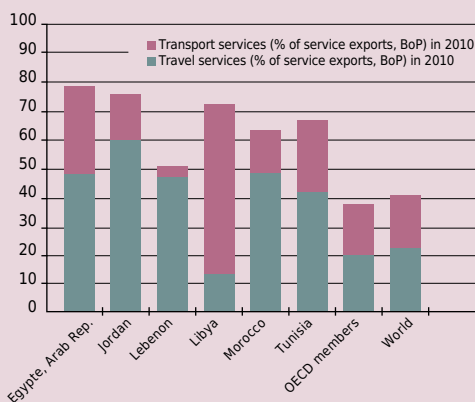
sectors have been mentioned in previous chapters and will not be repeated here, notably regarding the telecoms sector, the transport sector, and professional services (in Chapter Two), logistics (in Chapter Four), and the financial sector and tourism sector (in Chapter Six).

Yet as discussed in this chapter existing policies undermine the growth and export of services sectors². Hence Tunisia needs to rethink its approach to services sectors, to move from rents to competition. Enabling services to become competitive (and in particular transports, logistics and telecommunications) is also a pre-requisite to enable manufacturing to move into higher value added activities, and thereby realize the gains from global trade integration (see Chapter Four and Chapter Seven). Therefore, Tunisia should unilaterally pursue the horizontal and vertical measures required to improve competition and performance in services sectors. Challenges affecting specific services sectors have been mentioned in previous chapters and will not be repeated here, notably regarding the telecoms sector, the transport sector and professional services (in Chapter Two), logistics (in Chapter Four), and the financial sector and tourism sector (in Chapter Six).

8.1 / The Role of Services and Services Trade in Tunisia's Overall Economic Performance

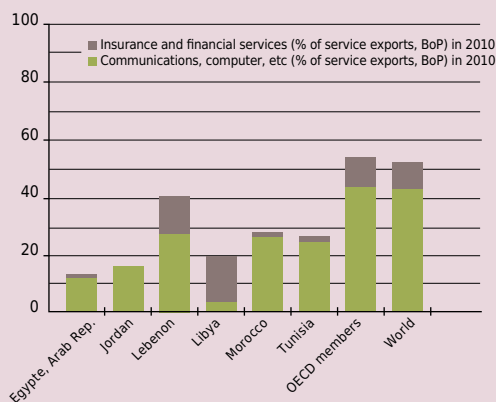
For over a decade, Tunisia has been underperforming in services trade. Prior to the revolution (2010), Tunisia ran a services trade surplus. In addition, the relatively high contribution of services trade to Tunisia's GDP (21 percent compared to 12 percent for OECD countries) would suggest both some openness and success on the trade front. However, a closer analysis of the country's services exports reveals a high dependence on transport and travel (tourism). Travel alone represents close to 50 percent of Tunisia's services exports, compared to 25 percent or less, on average, for the rest of the world and the OECD (figure 8.1 and figure 8.2). Cumulatively, travel and transport represent almost three quarters of Tunisia's services exports. As a result, the share in total exports of other types of services such as financial and insurance and communications and computer services remains well below the world average. This suggests a need for further diversification and a low capacity to innovate³.

Figure 8.1: A High Dependency on Travel and Transport Services



Source: World Development Indicators, World Bank 2011.
Note: BoP refers to "Balance of Payments"

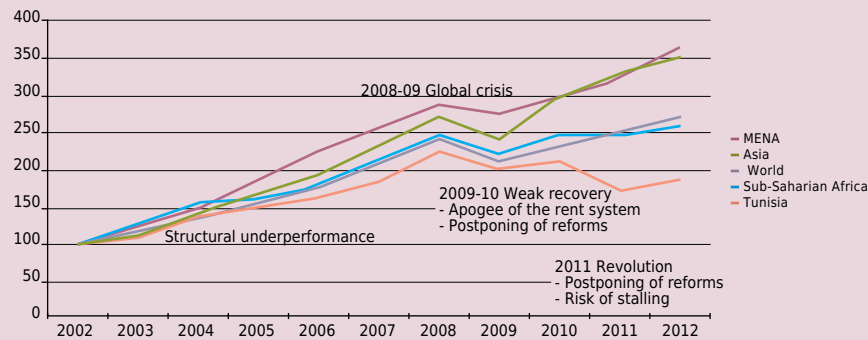
Figure 8.2: A Relatively Poor Performance in Other Services



Source: World Development Indicators, World Bank 2011.
Note: BoP refers to "Balance of Payments"

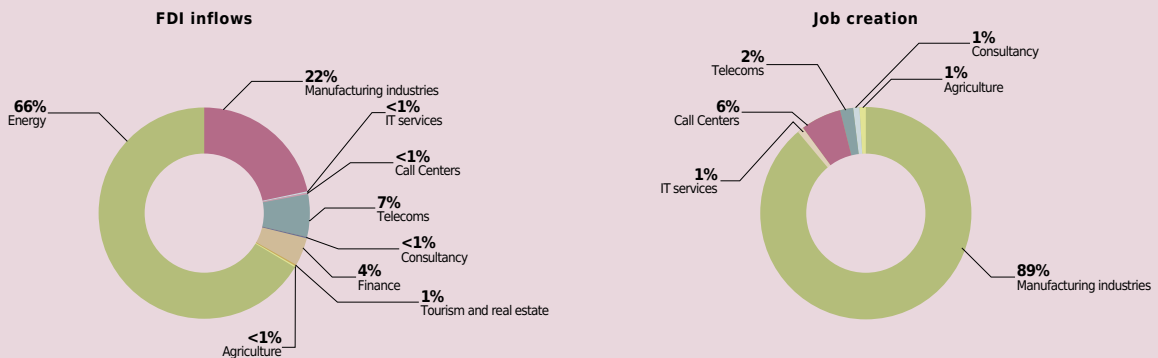
MENA countries have long been too dependent on the export of raw materials and low-value added industrial goods, stuck at the bottom of the productivity chain when emerging countries moved up the value chain (Müller-Jentsch 2005). Services trade, whether embedded in goods or standing alone, represents an important diversification, upgrading, and growth potential that has remained largely untapped. Over the last decade, Tunisian services exports have increased by 70 percent in value, which is significant but well under growth rates observed in the rest of the world (figure 8.3) As a result, Tunisia’s services export growth was only 10 percent during 2000 to 2008, well below the 16 percent MIC average. As mentioned above, the share of services exports in Tunisia’s GDP is relatively important (twice as large as the share observed on average in OECD countries) but is largely due to a high dependence on tourism (figures 8.1 and 8.2). In fact, only 11 percent of exporting firms operate in services activities, against 88 percent in the manufacturing industry. Thus, Tunisia needs to boost its services exports and diversify their content.

Figure 8.3: Performance of Commercial Services Exports, 2002-2012 (Index 2002 = 100)



Source: WTO online statistics (accessed in July 2013).

Figure 8.4: Distribution by sector of FDI inflows and job creations in Tunisia in 2012



Source: FIPA, 2012.

Note: Data from first quarter 2012; 100 percent corresponds to TND593 and 2,440 jobs, respectively.

Services trade is extremely relevant in terms of human capital and knowledge transfers usually associated with foreign direct investment (FDI), but the level of FDI in services in Tunisia continues to be small. The ratio of FDI to services trade is significantly higher than for merchandise trade: about 250 percent compared to 50 percent (Miroudot, et al. 2009). Although FDI inflows to the Middle East and North Africa (MENA) region increased significantly over the past decade ⁴, this has been primarily due to investments in the energy sector, with fuel-exporting countries receiving three-quarters of the FDI inflows. In Tunisia, the energy sector received over 60 percent of FDI inflows on average between 2006 and 2011 (see Chapter One, table 1.2). The services sector represented only 13.5 percent of total FDI inflows to Tunisia in 2012-generating 10 percent of the FDI-related jobs creation (figure 8.3) ⁵. This compares with services, accounting for approximately 90 percent of total FDI inflows in Morocco (see figure 1.2 in Chapter One).

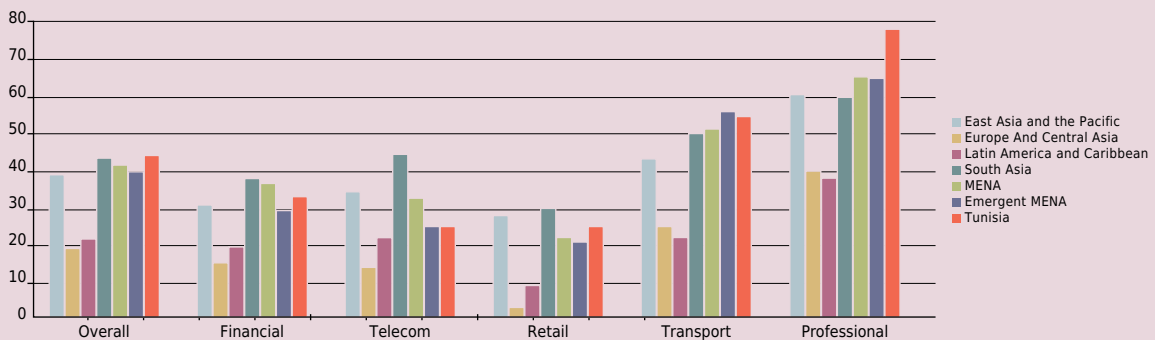
Tunisia's services sector is among the most restrictive in the world, and each of the services sectors is governed by several regulations. Restrictive regulations on all modes of services supply constitute a major obstacle to regional integration and to the participation of the region in the new division of labor allowed by the globalization of production networks and value chains. In 2010 the World Bank noted that while the Gulf Cooperation Council (GCC) is the most restrictive area of the world in terms of services trade, the MENA region at large is performing poorly on the openness front-the Services Trade Restrictiveness Index (STRI) measures the degree of openness of services sectors to foreign competition and highlights that all the countries in the Maghreb, with the exception of Morocco, appear relatively more restrictive than the world average, with the Arab Republic of Egypt and Tunisia being the most restrictive of the sample (Borchert, DeMartino, and Mattoo 2010). According to the STRI, Tunisia is the most restrictive MENA country for retail and professional services ⁶, and the second most restrictive country for transportation (figure 8.5). As a result, Tunisia has high telecommunications, Internet access, and transport costs (see Chapter Two), which affect the competitiveness of Tunisian firms as well as the attractiveness of the country to foreign investors.

There is an array of different types of restrictions that impair the growth of services sectors. Most of the investments in services activities are subject to approval when foreign equity holding exceeds 49 percent of capital (see Chapter Two and Chapter Four) ⁷. And, as discussed in Chapter Two, professional services are strictly protected, such that, while professional service represents 24 percent of global service exports (2008), it accounts for only six percent of Tunisian services exports. Restrictive employment policy for foreigners and protective corporate frameworks prevent foreign investment in professional services, despite its high export potentials. The Tunisian retail sector is also highly protected by complex red tape and narrow administrative regulations and authorizations. Although franchising was recognized in 2009, its application remains subject to case-by-case discretionary authorization by the concerned ministries. The financial sector has been liberalized since the 2009 law on non-resident financial institutions (offshore); however, in practice foreign exchange control limits the possibilities of trading these services. Due to the tight foreign exchange control, the Tunisian banking sector has only limited exposure to the international financial market, with less than 40 percent of Tunisian banks' capital belonging to foreigners, and offshore banks representing only seven percent of total assets.

Limited investment in services sectors in Tunisia, however, is likely due to more than just regulatory barriers. About 78 percent of total investments in the services sector (including tourism) originate in the MENA region. The EU represented less than a quarter of the foreign investment in services (tourism and other services) in 2012, which contrasts with 80 percent of the FDI in the manufacturing sector and 63 percent in the energy sector (with the United States and Canada representing another 23 percent). In other words, it seems that EU investors are interested only in the manufacturing and energy sectors, and the U.S. and Canadian investors essentially only in the energy sector. This

trend increased after the revolution. Since other Arab countries and Turkey already do invest in the services sector in Tunisia, it is unclear that the limited attractiveness of the country for EU and U.S. investors is simply the result of existing regulatory barriers. Most likely cultural proximity (including language) plays a major role in investment decisions in the services sector. On the other hand, EU and U.S. investors might also be more sensitive than their MENA counterparts to the security and predictability of the legal investment framework ⁸.

Figure 8.5: Service Trade Restriction Index (STRI) by Sector and Region



Source: Data from World Bank Service Trade Restriction Database
 Note: STRI is calculated as simple country averages.
 Emergent MENA economies exclude Iran and Yemen

The efficiency of services inputs is a key determinant of Tunisia’s competitiveness and growth. Services are inputs into any kind of economic activity and production, representing generally between 10 and 20 percent of industrial production costs (Hodge 2002). In Tunisia it has been calculated that the cost of logistics services accounts for 18 percent of electrical and electronic industry exports and approximately 24 percent of olive oil exports (Khanfir and Visentin 2004). Services trade liberalization, if implemented in a proper regulatory and competition framework, could remedy supply-side constraints and increase competition on the domestic market, resulting in a more diversified and competitive local supply of services. Gains expected from trade also include knowledge spillovers and FDI inflows. Beneficiaries are the local consumers of services, including firms that use services in their production. In turn, productivity gains allow growth and job creations in all sectors. A recent study by Arnold, et al. (2012) found that banking, telecommunications, insurance, and transport reforms in India all had significant, positive effects on the productivity of manufacturing firms: a one-standard-deviation increase in the aggregate index of services liberalization resulted in a productivity increase of 11.7 percent for domestic firms and 13.2 percent for foreign enterprises.

Improving the efficiency of services is important to any trade integration (or export-led growth) strategy and is necessary to compete with cost-efficient emerging countries. Due to the “servicification” of the economy and the increase in the services content of traded goods, ease of access to quality, efficient, and moderately priced services all along the production chain (including abroad) has become a key determinant of competitiveness and participation in global production networks in traditional sectors such as agriculture and industry. About 75 percent of services trade is in intermediate services, suggesting that services trade primarily takes place in global value chains (Miroudot, et al. 2009). A recent study by the Swedish National Board of Trade (2010) revealed that 40 different services tasks are involved when a manufacturing firm internationalizes its production. Participation in global production networks will depend on the country’s ability to efficiently supply

those services (either onshore or offshore): in relation to the EU, Tunisia’s geographical proximity and just-in-time production are a major comparative advantage that relies on sophisticated supply chain management.

Despite recent improvements, trade in intermediate goods remained relatively modest in the MENA region, suggesting that the region is not part of the main global production networks. This could be explained in part by a high level of protection in the services sector, including in key sectors like telecommunications and transport and logistics. Major obstacles to trade in services and poor services efficiency could contribute to leave the region outside of major global value chains. For example, barriers to establishment (such as the equity limits imposed in many sectors in Tunisia—see Chapter Two and Chapter Four) and movement of persons (such as Tunisian nationality requirements for work in professional services) could constrain production relocation decisions (FDI) in some industries; barriers to trade in retailing and distribution (such as the discrimination against foreign franchises that require, unlike Tunisian franchises, administrative authorizations) could be an impediment to backward links in the industry and agriculture sectors (when the lead firm is a global retailer—fsee for instance the problems met by big retailers trying to establish in Tunisia); and absence of adequate protection of data could be an obstacle to services off-shoring (McKinsey and Company. 2010).

8.2 / Reforming the Services Sector: The Role of Unilateral Reforms and Regional Trade Integration

Tunisia will not become a major exporter of services unless it opens its market to imports. Services have become increasingly complex, and intra-firm trade and trade in intermediate services have surged—country specialization (and trade) can be at the task level, although recent trends toward global value chain consolidation suggest that countries able to supply a bundle of tasks will be more attractive to leading multinational firms. Tunisia cannot become a major services exporter unless it is open to services imports. As noted above, services trade is 75 percent trade in intermediate services: this includes trade in services inputs to agriculture, manufacturing, and services. With regard to the last, two phenomena are noticeable: first, services exports include about 15 percent of imported services inputs (Miroudot, Lanz and Ragoussis 2009); and, second, about a quarter of cross-border services trade is intra-firm (Lanz and Miroudot 2011). Thus, a country not open to trade in services automatically excludes itself from a meaningful part of world services trade, significantly increasing its trade costs to the detriment of its competitiveness, and being left outside of major global value chains and intra-firm trade. This is the case, for example, in professional services where the “big four” in accounting and auditing or large U.S. or United Kingdom law firms capture a large share of top multinational firms: if such firms cannot establish in Tunisia, Tunisian accounts will be treated from abroad, with no spillover effects on the local economy.

Tunisia should have holistic services trade and reform strategies, or it will never be able to move up the value chain and become part of the main global production networks. Trade in intermediate services and tasks has created new prospects for international division of labor and productivity growth. A country can specialize in different tasks and progressively move up the value chain—for instance from business process outsourcing (BPO) to knowledge process outsourcing (KPO) (Gereffi and Fernandez-Starck 2010). Starting with call centers, Tunisia could move to exporting knowledge if market access were granted by key trading partners. Recent studies suggest, however, that not all tasks can be performed independently or offshore (Lanz, Miroudot, and Nordas 2011), and that only countries able to offer a “bundle of tasks” to lead firms will remain part of the main global value chains that have consolidated their activities after the crisis (Cattaneo, Gereffi, and Staritz 2010). Thus, it is not enough to liberalize the performance of one specific task when it is bundled to other tasks.

Reforms should be made in Tunisia's best interest and most of them unilaterally. Nonetheless, regional trade integration could provide an impetus and help build consensus for the reforms as part of the convergence process⁹. The driver of the regional trade integration negotiations between Tunisia (and its neighbors) with the EU could be the creation of a production platform with intermediate goods and services traded within the zone and a competitive services/industrial/agricultural offer in relation to the rest of the world. It is not about competing with China and other emerging countries but is about offering a bundle of tasks with high-value added content at key points of global value chains. This will require more freedom of trade in services and an increased efficiency of services links to allow a new division of labor, as well as important technology and knowledge transfers for Tunisia and its neighbors to move up the value chain.

The liberalization of the services sector, therefore, has two dimensions: one domestic (increasing competition among domestic providers) and one international (increasing the openness of the economy). A number of regulations apply in the services sectors that serve legitimate objectives, such as the protection of consumers against malpractice or universal access to essential services. These equally affect domestic and foreign competition. Some other regulations, however, discriminate against foreigners (market access and/or national treatment) and aim to protect domestic providers against foreign competition (under one or more modes of services supply: cross-border, consumption abroad, foreign establishment, and temporary movement of services providers).

The international dimension: The Tunisian government has retained a considerable degree of regulatory discretion in the implementation of its policies. Thus, *de jure* openness did not always translate into *de facto* openness, and a key reform issue will be to reconcile regulatory discretion—to the extent it serves legitimate domestic policy objectives—with the need for foreign and domestic service providers to have clear and predictable rules (Borchert, Gootiiz and Mattoo 2010). A number of companies that attempted to enter the Tunisian market in the last years of the old regime faced problems with corruption and nepotism and were refused administrative authorizations to establish or even open franchises in strategic sectors (for example, retail, real estate, and hospitality). The restoration of the country's attractiveness will therefore depend not only on a *de jure* but also *de facto* opening (that is, greater transparency, predictability, and security of the rules and their implementation).

Trade negotiations deal with both sectoral and horizontal barriers to trade. The rent system developed by the old regime has relied heavily on horizontal barriers that added to the complexity of the regulatory framework and the lack of transparency of the system¹⁰. The government should focus on restoring legal security and predictability and should take the opportunity of the regional trade negotiations to remove unnecessary horizontal barriers to trade, such as limits on foreign equity or employment of foreign nationals.

The domestic dimension is also important: It is not enough to focus on liberalization and market access—Tunisian services providers should be competitive enough to enjoy the benefits to be expected from further integration. A number of services sectors have suffered from excessive administrative burdens and controls. In the last years of the old regime, nepotism prevailed and distorted competition on the markets; tax audits were also used to capture rents. Foreign companies that benefited from offshore status could avoid some of these issues faced by their Tunisian counterparts. The main objective of the reforms should be to restore transparency, security, and predictability¹¹. Moving from rents to competition is not an easy task due to adjustment costs and the likely resistance of incumbent actors. In some sectors where entry and operational costs are high, the introduction of competition might also challenge the profitability of existing firms. In a post-revolutionary context, those problems become even more acute. Companies that benefited from the rent system will need to be restructured to survive the opening of markets to competition—more generally, all Tunisian services companies would benefit from upgrading.

The improvement of business and investment environments is a large and long-term need, and most of the priority reforms have been raised in previous chapters. Key measures that would help the development and efficiency of services include:

- *Simplifying the Regime of Administrative Authorizations:* As already discussed in Chapter Four, the scope and ambition of the ongoing “guillotine” regulatory reform of administrative procedures should be maximized. It is also important to switch to systems of tacit authorization in case of absence of response from the administration.
- *Removing Discriminatory Barriers to Entry Based on Nationality:* As already discussed in Chapter Two, these restrictions primarily affect professional services and should be replaced, in such case by objective qualification criteria. They also constitute a major barrier in key sectors of the economy that still benefit from rents: for example, in the distribution and retail sector, the *carte de commerçant* remains an obstacle to certain types of establishment by foreigners; and the acquisition of certain lands also remains forbidden for foreigners, affecting investment prospects in hospitality among other industries.
- *Removing the 49-Percent Limit on Foreign Equity in Strategic Sectors in Need of Foreign Investment:* As already discussed in Chapter Two and Chapter Four, these limits ought to be removed for all but the strategic sectors. The objective would be to authorize a foreign investor to hold a majority of the shares, even if limits on equity are maintained. A number of multinational companies would like to invest in the country but have trouble identifying the right partner (for example, in the cosmetics industry).
- *Ending Discrimination between Tunisian and Foreign Franchises:* Franchises are a predominant business model in a number of services sectors. The Tunisian law submits foreign franchises to burdensome administrative authorizations, which, in the recent past, had been attributed only in counterpart for rents. Franchises represent an important source of investment, jobs, and knowledge transfers.
- *Reforming the Legal Framework Regarding Competitiveness:* As discussed in Chapter Two, it is important that efficient competition laws and enforcement mechanisms are in place so that the opening of the Tunisian market does not result in new rents being captured by foreign companies.
- *Reinforcing Intellectual Property and Personal Data Protection:* Moving up the value chain in the services sector requires the improvement of the protection of high-value added activities. For instance, better personal data protection is necessary to allow the movement from BPO to KPO.
- *Revising Government Procurement Rules:* The revision of these rules would benefit a number of services sectors, including engineering and construction. As discussed in Chapter Two, these reforms should aim at increasing the efficiency, transparency, and accountability of procurement.
- *Removing Employment Limits for Foreigners:* As discussed in Chapter Four, the limits on employment of foreigners do not result in more jobs for Tunisians—rather they discourage foreign investment and reduce the number of jobs available to Tunisians. Skills required for performing certain tasks or providing certain types of services have become increasingly specialized. Temporary movement of key personnel should be allowed at critical stages of a firm’s life—it could be accompanied by obligations of training local staff if the objective of the government is to build local capacities. In an economy where global value chains prevail, key personnel should be able to move up and down the value chain to ensure the good functioning of the global network.

8.3 / Conclusions

Several studies have highlighted that Tunisia holds large potential in exports of services, and in today's globalized world services sectors increasingly play a pivotal role for economic development. Previous studies have estimated that opening up competition in the services sectors could generate over 90,000 jobs. The sectors with the greatest potential have been identified in previous studies and include ICT and offshoring, professional services, transport and logistics, tourism, and health. Further, competitive “backbone” services to firms, such as transport, logistics, and telecommunications, are necessary to improve the competitiveness of manufacturing and the shift toward higher-value added activities.

The revolution provides Tunisia a unique opportunity to implement long-overdue reforms and realize this potential. While social tensions are still vivid, with resurgent protests and strikes, it is important to send strong signals to investors and restore faith in good governance. Reforms need to be taken at a time when the costs of adjustment (for instance potential short-term job losses, even with prospects of longer-term jobs creation) come with a high political cost. However, delaying reforms any longer just threatens to increase the risk of stalling for the country. In a highly integrated world, the absence of action means not only stagnation but also the loss of ground with respect to competitors ¹².

To unleash the potential of services sectors, market access (“liberalization”) alone is not enough and needs to be preceded by reforms of the business environment and competition at large (discussed in previous chapters). In fact, the sequencing of reforms is key. Accompanying regulatory reforms, sometimes non-trade related, will determine the impact of services liberalization. Trade liberalization should be preceded by reforms of the business environment and competition at large. Opening a services sector to domestic (through privatization or suppression of a public monopoly) and/or foreign competition without paying attention to the domestic regulatory and competition environment could have negative effects—allowing, for example, anticompetitive behaviors and price increases. The government needs to ensure that regulatory reforms are effective to guarantee greater competition and remedy market failures. It is particularly important in a country in democratic transition like Tunisia—where part of the economic assets could have been captured by a few—to make sure that trade services liberalization and economic growth benefit the population at large and not just a few domestic or foreign investors.

Most of the reforms entail opening up the services sectors to competition and should be taken unilaterally in Tunisia's best interest, without waiting for reciprocal trade negotiations. Nonetheless, regional trade negotiations, notably with the EU, could provide an impetus and help build consensus for reforms as part of the convergence process but should not become an excuse to delay the unilateral opening of the services sectors, which is in Tunisia's best interest. Regional integration could be conceived as tool for the promotion of good governance, and its main benefits would reside in the convergence process that would help restore a transparent, secure, and predictable regulatory environment as well as send a strong signal to potential investors.

Trade negotiations should deal with both horizontal and sectoral barriers to trade. Just as important are the cross-sectoral and horizontal barriers that continue to hamper competitiveness. The rent system developed by the old regime has relied heavily on such horizontal barriers that added to the complexity of the regulatory framework and the lack of transparency of the system. The government should focus on restoring legal security and predictability, and take

the opportunity of the regional trade negotiations to remove unnecessary horizontal barriers to trade. The "Advancing Tunisia Global Integration" report (World Bank 2014h) presents a detailed discussion of the most urgent reforms needed in key services sectors.

In addition to significant potential in industrial goods and services, Tunisia also holds large unexploited potential in export of agricultural products. Following the discussion of the potential of the industrial sector in the previous chapter and the discussion of services potential in this chapter, the next chapter discusses how to realize the full potential of Tunisia's agricultural sector.

Notes

1 Other studies have estimated that the benefits from liberalization could be even greater. For instance, Ben Romdhane (2011) estimates that opening up the services sectors (which would result in the removal of the monopoly-rent distortions and inefficiency) could increase welfare by over four percent of GDP, mostly as a result of allowing foreign direct investment. Similarly, Konan and Maskus (2006) estimate that the benefits could reach approximately 4 percent of GDP.

2 This chapter draws on the report “Advancing Tunisia’s Global Integration” (World Bank 2014h).

3 While these trade patterns seem to be common to most countries in the region, the example of Lebanon suggests that a specialization in more innovative services (such as finance or communications and computer services) could be successful and reduce the dependence on tourism receipts.

4 At the beginning of the 2000s, the World Bank and the European Commission pointed at the failure of the MENA region to use trade and FDI as an engine for growth (Müller-Jentsch 2005); starting with a low baseline, between 2000 and 2008, MENA has multiplied its FDI inflows 17-fold, compared to a mere increase of 86 percent in Latin America and the Caribbean (LAC) or 68 percent in China; the 2009 crisis has resulted in a brief drop in FDI (-19 percent) that was recovered in 2010 (+12 percent) (O’Sullivan et al. 2010).

5 In 2012, two major operations in the financial and telecoms sectors boosted Tunisian FDI inflows and masked an otherwise flat growth of FDI.

6 After correction of the index regarding the openness of legal services.

7 Sectors concerned by this restriction include transport, communications, tourism, education, culture, entertainment and activities for youth and children, construction, real estate, computer services, and others.

8 The example of the U.S.-Morocco FTA shows that such agreement could give a significant impetus to investment decisions: between the conclusion of the negotiations (2004) and the entry into force of the agreement (2006), FDI inflows to Morocco multiplied threefold and jumped from US\$800 million to US\$2.4 billion—the signal sent to investors by the conclusion of the agreement should not be underestimated.

9 Linking reforms with regional trade integration and convergence could also help Tunisia benefit from technical assistance and capacity-building programs that are likely to reduce adjustment costs.

10 For example, the Tunisian investment code contains twenty times more pages than regular investment codes. For years, the revision of the code has been planned but postponed due to the complexity of the task. Tunisia has also been a leader in terms of competition law, but the adaptation of the system to new requirements is taking time. Laws regulating the professions date back several decades. The multiplication of administrative authorizations and other arbitrary restrictions on entry contributed to the deterioration of the business and investment climates in Tunisia.

11 For instance, as discussed in Chapter Four, while according to international indicators Tunisia is perceived to have fairly good logistics services, in fact this is not the experience of the private sector in Tunisia. According to the World Bank LPI rankings, Tunisia is now a fairly good performer (third best performing country in the region), but in fact the LPI likely underestimates the problems confronting the Tunisian logistics sectors (see box 4.6 in Chapter Four). In the context of a “dual economy” and in an environment where political connections are so crucial, the results depend on who is interviewed. In other words, in Tunisia there are differences in treatment between onshore and offshore firms and there is also a significant gap between de jure regulations and de facto regulations reflecting the discretion exercised by the administration, notably by customs. For instance, when compared to other countries, including in the sub-region, cargo dwell time in Tunisia is, on average, the worst after Algeria (close to 10 days), much worse than Morocco (below 5 days) and not better than Lebanon or Egypt (see figure 4.11 in Chapter Four). Discretion and unpredictability play an important role. For instance, the ratio between the longest dwell times with the average for all the companies surveyed should be rather close to one since most of the time importers have rather similar cargo to import. However, once again this ratio is worst in Tunisia (see figure 4.3 in Chapter Four). This means that it is possible for an importer to face a much longer dwell time than the average—and, while this could capture many factors, in general it is a proxy for some bargaining processes to reduce fees, bribes, and duties.

12 For example, if Morocco concludes its Deep and Comprehensive Free-Trade Agreement (DCTFA) with the EU before Tunisia, the risk is that—within the most-favored nation (MFN) clauses—Tunisia will just have to abide the rules set by its neighbor. The opening of the negotiations, in July 2013, of the U.S.-EU FTA also changed the rules of the game at several levels. Specifically: (a) the transatlantic agreement will capture many of the EU Commission’s negotiation resources; (b) it will set a new level of concessions that are likely to be asked from trading partners, the EU and U.S. FTAs with the Republic of Korea serving as a basis for the negotiations; and (c) it will provide simultaneous access to the U.S. and EU markets for those countries having concluded with either of the parties a separate FTA with an MFN clause. In that respect, Jordan, Morocco, and other countries that already have an FTA with the U.S. are more advanced, and it is even more important to conclude an agreement between Tunisia and the EU before the U.S.-EU FTA is negotiated.

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