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**UNILATERAL LIBERALIZATION IS KEY FEATURE OF
TUNISIA'S TRADE POLICY - SAYS GATT**

"The future of an outward-looking Tunisia extends beyond the frontiers of the Mediterranean into a wider multilateral world"

Since the mid-1980s, the key feature of Tunisia's trade policies has been unilateral liberalization with a view to accelerating the integration of Tunisia into the world economy and attracting increased foreign investment, says the GATT Secretariat's report on Tunisia's trade policies and practices.

More recently, policy priorities have increasingly focussed on the two objectives of export promotion and the creation of a free-trade area with the European Union. "Past import-substitution and export-promotion policies led to a seriously distorted, dualistic trade and production structure," says the report. However, "although liberalization of non-tariff measures and lowering of tariffs are reducing the extent of the distortions, Tunisia's trade policies still seem far from neutral, in particular where export and investment incentives are concerned."

The report highlights the achievements of the Structural Adjustment Programme launched in 1986: fiscal and monetary policies have been tightened; subsidies and price supports curtailed; State enterprises restructured and privatized; and controls on prices, interest rates, credit and investment have been progressively deregulated. Trade policy was changed to an outward orientation with a view to improving competitiveness; in this connection, high border protection was gradually, yet significantly, reduced. The ultimate aim of the new policy was to narrow the persistent investment-savings gap -

the fundamental structural weakness of the Tunisian economy - by enhancing the productivity and competitiveness of the economy through more efficient resource allocation.

The report suggests that a durable solution to the present weaknesses of the Tunisian economy would be in the continuing improvement of productivity and competitiveness through more efficient resource allocation, assured by the further liberalization of the economy.

Underlining the fact that products competitive within a limited privileged zone, such as a domestic market or a regional arrangement, are not necessarily competitive on world markets, the report points out that Tunisia's comparative advantage in labour cost and proximity to Europe is increasingly being challenged by other developing economies in Europe and Asia. "In fostering closer links with the EU through a free-trade area," warns the report, "Tunisia should not ignore the wider perspectives of trade liberalization within a multilateral framework. Thus," urges the report, "the future of an outward-looking Tunisia extends beyond the frontiers of the Mediterranean into a wider multilateral world."

Notes to Editors

1. The GATT Secretariat's report, together with a report prepared by the Tunisian Government, will be discussed by the GATT Council on 22-23 June 1994 under the Trade Policy Review Mechanism (TPRM).
2. The TPRM enables the Council to conduct a collective evaluation of the full range of trade policies and practices of each GATT member at regular periodic intervals, to monitor significant trends and developments which may have an impact on the global trading system.
3. The two reports, together with a record of the Council's discussion and of the Chairman's summing up, will be published in 1994 as the complete trade policy review of Tunisia and will be available from the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.
4. The reports cover developments in all aspects of Tunisia's trade policies, including domestic laws and regulations, the institutional framework, trade-related developments in the monetary and financial sphere, trade practices by measure and trade policies by sector. Attached are the summary extracts from these reports. Full reports will be available for journalists from the GATT Secretariat on request.
5. Since December 1989, the following reviews have been completed: Argentina (1992), Australia (1989 & 1994), Austria (1992), Bangladesh (1992), Bolivia (1993), Brazil (1992), Canada (1990 & 1992), Chile (1991), Colombia (1990), Egypt (1992), the European Communities (1991 & 1993), Finland (1992), Ghana (1992), Hong Kong (1990), Hungary (1991), Iceland (1994), India (1993), Indonesia (1991), Japan (1990 & 1992), Kenya (1993), Korea, Rep. of (1992), Malaysia (1993), Mexico (1993), Morocco (1989), New Zealand (1990), Nigeria (1991), Norway (1991), Peru (1994), the Philippines (1993), Poland (1993), Romania (1992), Senegal (1994), Singapore (1992), South Africa (1993), Sweden (1990), Switzerland (1991), Thailand (1991), Turkey (1994), the United States (1989, 1992 and 1994), and Uruguay (1992).

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TRADE POLICY REVIEW MECHANISM

TUNISIA

Report by the Secretariat - Summary Observations

The Economic Environment

Since independence in 1956, the Tunisian economy has undergone major structural changes. A poor agrarian economy in the 1960s, Tunisia experienced historically unparalleled growth in the 1970s, when surging petroleum revenue provided the State with resources and latitude to intervene extensively in economic activities. However, a severe balance-of-payments crisis in the mid-1980s, touched off by a collapse of oil prices, drought and falling receipts from tourism, revealed the structural vulnerability of the Tunisian economy. The crisis led Tunisia to change its development strategy, from socialist-style, import-substitution-based interventionism to a more market- and export-oriented policy.

Devaluation of the Tunisian dinar and an increase in interest rates in 1985 were the initial steps in Tunisia's Structural Adjustment Programme (PAS), launched in 1986. Under the programme, fiscal and monetary policies have been tightened; subsidies and price supports curtailed; State enterprises restructured and privatized; and controls on prices, interest rates, credit and investment have been progressively deregulated. Trade policy was changed to an outward orientation with a view to improving competitiveness; in this connection, high border protection was gradually, yet significantly, reduced. The ultimate aim of the new policy was to narrow the persistent investment-savings gap - the fundamental structural weakness of the Tunisian economy - by enhancing the productivity and competitiveness of the economy through more efficient resource allocation.

These reform measures have yielded positive results. Economic growth since 1987 has outpaced that of the earlier 1980s. The budget deficit has narrowed, while positive real interest rates have brought down domestic borrowing to a more sustainable level. Import liberalization has helped to ward off potential inflationary pressure stemming from progressive price deregulation. Exports have expanded much faster than in the preceding period, due to real exchange rate depreciation and the progressive reduction of anti-export bias.

However, import controls, justified by Tunisia under GATT's balance of payments provisions, still protect important sectors of the economy. Further liberalization is, therefore, needed to reduce remaining distortions to the efficient allocation of scarce resources. If accompanied by appropriate exchange rate and macroeconomic policies, this could eliminate the anti-export bias against tourism and broader-based, outward-oriented manufacturing and services sectors, paving the way for a longer term resolution of the external/internal imbalances in the economy.

Tunisia in World Trade

Tunisia has always depended considerably upon foreign trade and investment; its domestic market is relatively small, it is close to its major markets and capital suppliers and has largely complementary patterns of comparative advantage with neighbouring countries.

Tunisia's merchandise trade is highly concentrated. The top three items, petroleum, clothing and chemicals (phosphates derivatives), account for two-thirds of exports, although recent structural changes in the economy have resulted in a sharp fall in petroleum, which has been made up by growth

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in clothing exports. Intensified outward processing activities in the clothing sector have been reflected in rapid growth of textile imports, which now account for one-fifth of the total. Services trade receipts have been consistently dominated by tourism revenue.

The geographical concentration of external trade is even stronger. The European Union, accounting for roughly 70 per cent of total trade in merchandise and services, is the major source of foreign investment in Tunisia. The lack of diversity in trade patterns adds to the vulnerability of the Tunisian economy to external factors, such as the current slowdown in European markets and fluctuations in world commodity prices.

Trade Policy Framework

Tunisia's liberalization process has been supported by a strong administration committed to the new policy orientation. The Government of Tunisia combines presidential and parliamentary systems, with the President of the Republic as executive head of State. Legislative power is vested in the unicameral National Assembly (Chambre des députés). Economic policy in Tunisia is framed within five-year Development Plans and annual programmes (budgets économiques), each elaborated through co-ordination of public and private sector views and approved by the National Assembly. Liberalization of the economy constitutes the major tenet of the VIIth Plan (1987-91) and the current VIIIth Plan (1992-96).

Formulation and implementation of trade policies is under the responsibility of the executive branch. The key players are the Ministries of National Economy; Finance; International Cooperation and Foreign Investment; Agriculture; and Foreign Affairs. The Central Bank is also closely involved in policy formulation, particularly reflecting Tunisia's balance-of-payments concerns. State enterprises are instrumental in policy implementation. Consultation, formal and informal, with private sector associations is an integral part of trade policy formulation.

Tunisia remained under provisional accession status to the GATT for some 30 years. The policy switch to an export-oriented strategy added fresh impetus to the process of accession, which was eventually achieved in August 1990. Tunisia is a signatory to the Tokyo Round Agreement on Technical Barriers to Trade and the Arrangement regarding Bovine Meat, but not to the Multifibre Arrangement (MFA) despite the importance of its textiles and clothing sector. Tunisia intends to ratify the Uruguay Round Final Act and become a founding member of the World Trade Organization (WTO).

On the other hand, attempts to diversify the direction of trade through various preferential regional agreements have yielded limited trade expansion with African and Arab nations; the lion's share of Tunisian commerce continues to go to trans-Mediterranean trade, covered by the EC-Tunisia Co-operation Agreement of 1976, under which Tunisia receives EC preferences but grants the EC m.f.n. status. Recently, Tunisia began negotiations for a full free-trade agreement with the European Union.

Trade Policy Features and Trends

Recent evolution

Under its Structural Adjustment Programme, the Tunisian Government launched an ambitious trade liberalization plan, with the initial objective of removing all import restrictions by the end of 1991, while achieving uniform effective protection of around 25 per cent. Accordingly, tariffs were reduced and the coverage of import restrictions progressively reduced, starting with liberalization on

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goods not locally produced. The pace of reform slowed as the liberalization process moved into more sensitive areas of imports competing with locally produced goods; the initial completion date of 1991 was postponed to 1994 and the removal of non-tariff barriers was offset by the introduction of higher tariffs in the form of surtaxes (Provisional Complementary Duties or Droits Complémentaires Provisoires - DCP) introduced in 1991. In addition, the Government revitalized an anti-dumping and countervailing measures scheme which could be used to limit possible adverse effects of the liberalization.

On the other hand, since the 1970s, the Tunisian State, conscious of the anti-export bias created by high border protection, has steadily extended fiscal and financial advantages to exporting activities. The authorities now recognize that import liberalization and a more neutral trade policy will render domestic production more competitive in the long run. However, pressed by balance-of-payments concerns, the Government continues to pursue an increasingly active export-promotion strategy, stepping up levels of assistance and strengthening effective protection for exporting enterprises.

Type and incidence of trade policy instruments

Tariffs, based on the Harmonized System schedule containing some 6,000 lines at the seven-digit level of the Harmonized System Classification, are now the major instrument of import protection in Tunisia. Despite the recent efforts for the reduction and rationalization, a legacy of high, escalatory tariff barriers persists across all sectors, with an overall simple average of 30 per cent and effective protection as high as 40 per cent. Provisional Complementary Duties (DCP), applied to more than 700 items at rates ranging from 10 to 30 per cent, increase the overall tariff average to 33 per cent and increase escalation of the combined import charges.

All Tunisian tariffs have ad valorem rates, except for variable levies introduced in 1990 on some livestock products. Tunisia currently applies m.f.n. tariffs to all countries regardless of their GATT status, except for those which enjoy preferential treatment. Tunisia's commitment in the Uruguay Round is expected to double the scope of bindings under the GATT, previously limited to one-sixth of total tariff lines.

Other import levies, namely the long-standing 5 per cent customs formality tax and a 5 per cent temporary surcharge introduced to finance the budget deficit caused by the Middle East crisis, were incorporated into customs tariffs in 1988 and 1994. The indirect tax system was significantly streamlined by the introduction of a value added tax in 1988, yet continues to include an important consumption tax, covering a wide range of goods, with rates varying from 11 to 470 per cent. These taxes are levied equally to domestic and imported goods.

Import restrictions, though substantially reduced in the last years, are maintained partly or fully for some 27 per cent of total tariff lines (defined at the 7-digit level). The authorities justify these restrictions on grounds of securing stable supply of basic commodities such as cereals, defending national security (as in the case of explosives) and controlling luxury consumption (for example, of gold and jewellery). Restrictions are also, however, extended to some major exported goods (e.g. olive oil, dates, almonds, textiles and clothing), passenger motor vehicles, and some electrical apparatus. These restrictions have been formally justified in GATT under the balance-of-payments provisions of Article XVIII:B.

State-trading practices, which cover roughly 20 per cent of total imports and exports, remain as one of the most important trade policy instruments, although the recent liberalization has resulted

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in lifting of some State monopolies (e.g. on olive oil). On the other hand, countertrade operations, once frequently used in trade with former State-trading countries, have been totally eliminated.

Given the importance of the public sector in Tunisia, Government procurement could have a negative impact on trade flows. Tunisian legislation does not accord national treatment to foreign suppliers, but allows a 20 per cent preference for domestic suppliers. In addition, foreign suppliers are expected to give as many subcontracts to Tunisian companies as possible. As for customs valuation and rules of origin, national legislation does not explicitly spell out detailed rules comparable to those set out in the relevant Codes of the Uruguay Round Final Act, viz., the Agreements on Implementation of Article VII and on Rules of Origin.

Export restrictions have also been substantially reduced. Textiles and clothing exports to the European Union are covered by a bilateral voluntary export restraint agreement concluded outside the framework of the MFA.

Tunisia extends a series of significant fiscal, financial and other assistance to exporting activities, without preference as to sector. However, tourism and textiles and clothing are the major beneficiary sectors. The Investment Incentives Code of 1993 has consolidated the range of tax allowances and duty concessions to investment in, and production by, export-oriented enterprises, defined as firms exporting more than 80 per cent of their output. Moreover, duty and tax concessions are available for many export-related activities, including production within a Free Economic Zone opened in 1992. The Central Bank also extends preferential discounting facilities for export credit, while State financed funds and a Government- controlled insurance company offer financial and technical assistance to exporters.

Temporary measures

With a view to limiting possible adverse effects of import liberalization, Tunisia introduced a Decree on anti-dumping and countervailing duties in 1993. The outline of the Tunisian régime generally follows the framework laid out in the current MTN Codes, and the Uruguay Round Final Act. Recently, provisions have been introduced for review procedures, under a new Law of March 1994. To date, no actions have been taken under the new Decree, despite marked interest by the private sector.

Tunisian legislation contains no specific safeguard provisions corresponding to Article XIX of the GATT.

Sectoral policy patterns

In recent years, Tunisia has intensified efforts to bring greater neutrality to sectoral incentives, which had long contained many distortive elements. State intervention, however, remains important across the board, although its objectives and styles differ considerably according to sector.

Agricultural production, particularly that of wheat, suffers from irregular rainfall patterns; Tunisia is a net importer of food products. Despite the high cost of protection, the achievement of self-sufficiency is considered to be of great importance in agricultural policy. High tariffs are maintained on virtually all agricultural products, including some major exports such as olive oil, dates and citrus. On the other hand, the coverage of import restrictions, price supports and input subsidies have largely been reduced to basic commodities. Reduction of price supports and subsidies is envisaged in line with Tunisia's commitments in the Uruguay Round, and should lead to a longer term rationalization

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in the sector. At the same time, Tunisia maintains more direct forms of intervention, including State monopolies and infrastructure investment.

With dwindling oil reserves, self-sufficiency has also become a focus in policies towards the mining and energy sector, whose main products are petroleum and phosphates. Tariffs in this area are relatively low and neutral, yet are combined with extensive price controls; and State enterprises are dominant in all stages of production and distribution. The sector, moreover, remains virtually untouched by the recent liberalization process.

The strategy of export-led development is most pronounced in the tourism and manufacturing sectors, particularly in the rapidly-growing textiles and clothing branch. While State enterprises and public investment in manufacturing are less widespread than in other sectors, tariffs remain high and escalatory, particularly for labour-intensive branches where Tunisia possesses comparative advantage. Effective tariff protection is further reinforced by the DCP, which is concentrated on finished and intermediate goods, as well as by tax and duty concessions accorded to raw materials imported by export-oriented enterprises.

Trade Policies and Foreign Trading Partners

Unilateral liberalization has been the key feature of Tunisia's trade policies since the mid-1980s, with a view to accelerating the integration of Tunisia into the world economy and attracting increased foreign investment. Tunisia's full and active participation in the GATT and the Uruguay Round negotiation process, and its aim to become a founding member of the WTO, clearly correspond to such aspirations.

Tunisia's most recent policy priorities, however, have increasingly focused on two objectives: export promotion and the creation of a free-trade-area with the EU. Past import-substitution and export-promotion policies led to a seriously distorted, dualistic trade and production structure. Although liberalization of non-tariff measures and lowering of tariffs are reducing the extent of the distortions, Tunisia's trade policies still seem far from neutral, in particular where export and investment incentives are concerned. In the regional context, Tunisia's comparative advantage in labour cost and proximity to Europe is increasingly being challenged by other developing economies in Europe and Asia.

A durable solution to the present weaknesses of the Tunisian economy will be in the continuing improvement of productivity and competitiveness through more efficient resource allocation, assured by the further liberalization of the economy. In fostering closer links with the European Union through a free-trade area, Tunisia should not ignore the wider perspectives of trade liberalization within a multilateral framework; products competitive within a limited privileged zone, whether a country's border or a regional arrangement, are not necessarily competitive on world markets. Thus, the future of an outward-looking Tunisia extends beyond the frontiers of the Mediterranean into a wider multilateral world.

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TRADE POLICY REVIEW MECHANISM TUNISIA

Report by the Government

Introduction: Economic Environment and Development

Independent since 1956, Tunisia has entered its fourth economic and social development decade (1991-2000) in an international economic environment undergoing major political, economic and social changes. Other features of this decade are the consolidation of the achievements of the last 30 years, the continuation of far-reaching economic reforms, ushering the country into the post-adjustment era, and establishing its position in the present world economic setting. The development undertaken throughout the last three decades has led to economic and social achievements that are borne out by the profound structural changes characterizing the country's economy and society in general.

This is illustrated by:

- Higher incomes and living standards.
- Increased urbanization, with the urban population representing 60 per cent of the total population in 1990 as against only 33 per cent at independence.
- The sharp fall in the mortality rate, which now does not exceed 6 per cent.
- Development of education and training.
- Diversification of the economy with the emergence of new sectors such as manufacturing and tourism. These sectors' share of GDP has increased significantly while that of agriculture has declined.

Taking into account the changes that have occurred in the country's economic and social structures, its development plans have undergone major modifications and adjustments from one decade to the next.

The salient features in the first decade (1961-1970) were the strengthening of State institutions, infrastructure and public equipment and the adoption of purposeful education and literacy policies. This effort laid the necessary foundations for development and for attaining an annual average growth rate of around 5.2 per cent.

The decade was also characterized by strong support for agriculture and by the establishment of industrial poles which helped to underpin the country's industrialization. The Government's interventionist policy during this period led it to participate directly in most economic and social sector.

The second decade (1971-1980) witnessed a reorientation of economic policy, with the encouragement of the private sector through the enactment of legislation to foster investment, economic liberalization and openness to the outside world. This decade benefitted from a favourable external environment with a significant improvement in the terms of trade thanks to the sharp increase in the prices of oil and exported raw materials. With the ensuing increased public revenue the Government was able to undertake economic and social projects, especially in the public sector.

Consequently, growth was strong, with an average rate of 6.8 per cent owing to the rapid development of investment and a steady rise in consumption at a rate far above that of GDP growth. Employment tripled in comparison with the first decade and individual income increased by almost half in real terms.

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The principal feature of the third decade (1981-1990) was the adoption of the structural adjustment programme.

The world economic downturn in the early 1980s revealed the limitations of the country's development model, which relied essentially on financial resources provided by oil revenue. The fall in oil revenue quickly highlighted the need to review this policy and introduce the necessary reforms to adapt and prepare the economy for the post-oil era.

The structural adjustment programme adopted in 1987 thus helped to limit the deterioration of the economic situation. It also brought the implementation of a series of structural reforms to adjust the economy to the new circumstances, through greater flexibility of economic structures, liberalization of private initiative and rehabilitation of market mechanisms.

This programme, which constituted the cornerstone of the VIIth Plan (1987-1991), had two main thrusts. The first concerned short-term measures to reduce imbalances, consisting of:

- Adjustment of the dinar parity so as to counteract the revaluation of the 1980s and restore economic competitiveness.
- Compression of public spending so as to reduce the budget deficit and thus alleviate the balance-of-payments current-account deficit.

The second, and by far the most important, set of measures was aimed at the following medium-term objectives:

- Export promotion in order to generate the external resources needed to underpin growth, offset declining oil exports and improve debt parameters.
- Rationalization of investment and control of consumption so as to bring them into line with the country's actual possibilities;
- Enhancement of economic competitiveness by restoring efficiency through liberalization of investment, imports and prices, reducing protection of local industry and opening up to foreign markets.

Various measures were taken in this context:

- With regard to investment, the agricultural, industrial, tourist and services investment codes were thoroughly revised.
- On the price front, liberalization affected both production and distribution. At the same time, import liberalization was introduced with the removal of restrictions on capital goods, most raw materials and semi-finished products, as well as on a first category of consumer goods.

Nearly 86 per cent of imports have thus been liberalized so far.

This review of the State's role has led to less government intervention in competition and production activities. Some activities which were hitherto exclusively entrusted to public enterprises have thus been transferred to the private sector.

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The essential components of this macroeconomic reform included adjustment programmes for the agriculture and the industrial sectors with a view to enhancing their contribution to overall economic growth and to the balance of payments and budgetary balance.

In this context, efforts focused on the implementation of a coherent trade and price liberalization policy as well as the rationalization of public spending.

An analysis of the overall results of the VIIth Plan shows that the development process has entered a new phase which implies a change in earlier behaviour patterns.

The development model embodied in the VIIIth Plan presupposes a continuation of the reform efforts so as to enable the economy to win its battle for efficiency, take up the challenge of competition and enter a new period of growth that can respond to the population's aspirations, promote employment and improve living conditions in general.

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