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TUNISIA

Key Economic Indicators

(Millions of U.S. dollars unless otherwise indicated)

	1998	1999	2000 1/
Income, Production and Employment:			
Nominal GDP 2/	17,410.6	18,273.7	17,736.2
Real GDP Growth (pct) 3/	5.4	6.2	5.0
GDP by Sector:			
Agriculture	2,493.7	2,695.1	2,550.5
Manufacturing	3,651.8	3,804.0	3,694.3
Services	6,954.7	7,323.9	7,190.8
Government	2,693.9	2,752.2	2,614.3
Per Capita GDP (US$)	2,145.1	2,217.8	2,130.2
Labor Force (000's)	2.92	2.99	3.06
Unemployment Rate (pct)	16.5	15.8	15.6
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	5.5	10.2	N/A
Consumer Price Inflation	3.1	2.7	3.0
Exchange Rate (TD/US$ annual average)			
Official	1.1343	1.1891	1.3407
Parallel	N/A	N/A	N/A
Balance of Payments and Trade:			
Total Exports FOB 4/	5,746.5	5,859.0	5,959.6
Exports to U.S. 4/	28.5	44.0	41.0
Total Imports CIF 4/	8,365.9	8,469.0	8,194.5
Imports from U.S. 4/	289.2	364.7	519.7
Trade Balance 4/	-2,619.4	-2,610.0	-2,111.3
Balance with U.S.	-260.7	-320.7	-478.7
External Public Debt	9,743.6	9,908.3	9,193.0
Fiscal Deficit/GDP (pct)	1.2	3.5	2.7
Current Account Deficit/GDP (pct)	3.4	2.1	2.3
Debt Service Payment/GDP (pct)	7.6	7.2	8.7.
Gold and Foreign Exchange Reserves	1,807	2,354	2,250
Aid from U.S.	0.9	8.4	9.4
Aid from All Other Sources 5/	N/A	N/A	N/A

1/ 2000 figures are all estimates based on monthly data available in September.
2/ GDP at factor cost. Nominal GDP figures are distorted by the depreciation of the Tunisian dinar relative to the dollar.
3/ Percentage changes calculated in local currency.
4/ Merchandise trade; 2000 figures are extrapolated from 5 months results.
5/ Tunisia does not publish official aid figures.

Source: Tunisian Central Bank and other government sources.

1. General Policy Framework

Tunisia has made significant progress toward establishing a market economy over the past decade. The European Union (EU)-Tunisian Free Trade Accord (Association Agreement) was signed in 1995 and formally came into effect on March 1, 1998. Tunisia, having started implementing significant reforms in 1996, is on schedule in reforming its economy as required by the agreement. Over a 12-year period, the terms of the agreement require the Tunisian government to eliminate import tariffs on EU origin goods and open the market to business competition. The Central Bank of Tunisia (*Banque Central Tunisien*, BCT) notes that the continuing drop in tariff income is a result of the phasing out of tariffs in accordance with the EU agreement. Starting in 2000, products of EU origin, that have Tunisia-made equivalents (currently around 40 percent), can now be imported duty-free. In 1999 tariff revenues did not match expectations of $715 million, instead totaling only $573 million. The 2000 tariff reduction estimates are expected to result in further reductions to $546 million. In addition, the Tunisian Government has reduced tariffs on some of the same products originating from other countries in order to reduce pressure from non-EU suppliers and maintain diversified markets. The government revised the tax code in July 2000 to increase domestic tax revenues to replace lost tariff income. In the long run, Tunisia is betting that the Association Agreement will help the country by attracting foreign investment and creating an export-oriented economy based increasingly on manufactured products.

Initially, the government expects significant economic uncertainty as state-owned firms are privatized, jobs are eliminated, and companies are forced to become more efficient. Unemployment remains a major problem with the official rate at 15.8 percent in 1999 (down from 16.5 percent in 1998). Actual unemployment is widely believed to be higher, with some regions registering 30 percent. In the long run, Tunisia is betting that the Association Agreement will help the country by attracting foreign investment and creating an export-oriented economy based increasingly on manufactured products. Perhaps reflecting this strategy, job creation was better than expected in 1999 with 61,000 new jobs. The 2000 estimate is for 63,000 new jobs, which would fulfill 90 percent of the total demand. (There are no published figures for jobs lost).

The government's fiscal policy is socially oriented, designed to raise living standards and reduce poverty while maintaining economic and political stability. Approximately 61 percent of the government budget is allocated for social programs, providing subsidies for education, basic foodstuffs and support for the poorest sectors of society.

Increases to the annual minimum wage (currently 187 Tunisian dinars [TD] per month, or $144, for a 48-hour work week) have kept pace with the official inflation rate, which should remain between 3.0 and 3.5 percent for 2000. (Actual inflation may be somewhat higher according to World Bank estimates). The BCT claims that the low inflation rate is due to a rigorous monetary policy, better distribution networks, enhanced competition, diversified economic control, and a sound consumer behavior awareness campaign. Non-regulated products now make up more than two-thirds of the general price index and, increasingly, their prices are at a lower rate than regulated products. In short, the Tunisian government has continued its prudent inflation policy.

The government's predicted GDP growth for 2000 was recently lowered from six to five percent due to lower than expected agricultural production (the result of a serious drought) and lower than anticipated growth in the tourism sector. GDP growth in 1999 reached 6.2 percent, larger than initial estimates. With its slowly opening market, Tunisia's trade deficit continues to grow, increasing by 4.5 percent in 1999. The agriculture sector showed a 28 percent increase in exports and a trade surplus in 1999. However, due to the drought, the country is likely to return to a trade deficit in foodstuffs in 2000. Current estimates show import values increasing by 16 percent and export values increasing by 14 percent. While the United States is the fourth largest exporter to Tunisia, its share is only 6.3 percent. In addition, since 1996, imports from the European Union have increased by 35 percent, while non-EU imports have decreased by 20 percent. On a value basis, U.S. exports are heavily influenced by aircraft sales. A recent re-organization of TunisAir (the government-owned airline monopoly) appears to favor Airbus Industries for future aircraft purchases. The U.S.-North Africa Economic Partnership (USNAEP) has begun work in Tunisia and will help raise the profile of Tunisia as a trading partner and as an investment market for the United States. Opportunities for U.S. exports include electrical power generation systems, construction, engineering services, telecommunications, computer equipment, and agricultural products and equipment. Tunisia is also in the process of opening its market for higher education and adult education.

The government, which exercises considerable control over the Central Bank, the stock market, and other financial institutions, has maintained tight control of the money supply. In 1999 foreign exchange reserves increased by 19.5 percent to $2.4 billion, but had fallen to $1.5 billion by mid-year 2000 following a common cyclical pattern. This range of reserves equals two to three months of imports. The government has continued its policy of not allowing the Tunisian dinar to be traded on international markets. The government exchange controls for Tunisians traveling abroad were recently loosened, but still remain strict. Citizens are now permitted to carry up to 1,000 dinars (approximately $700), as opposed to 500 dinars, out of the country per year.

2. Exchange Rate Policy

While the dinar is not traded on the world market, it is commercially convertible for most trade and investment operations, though certain restrictions apply. Central bank authorization is needed for large-scale foreign exchange operations.

The value of the dinar is tied to a basket of foreign currencies, primarily those of Tunisia's major trading partners such as Germany, France, Italy, Japan and the United States. All exchange rate transactions are done internally, and the Tunisian Central Bank allows the rate to float only within a narrow band fixed by the Bank. There is no "parallel" or black market for currency exchanges within Tunisia, although such markets for the dinar exist in Libya and Algeria. In 2000 the dollar has continued to gain on the dinar. As of October 16, 2000, one dollar bought 1.47 dinars, as opposed to 1.19 one year ago and 1.25 at the end of 1999.

3. Structural Policies

To meet the terms of the EU Association Agreement, the government is continuing to introduce structural economic reforms initiated in 1987 with the IMF and World Bank. As customs duties are eliminated over a 12-year period for a wide range of imports, Tunisian companies will have to become more competitive. In conjunction with the Agreement, and in response to World Bank suggestions, the government has vowed to accelerate its privatization program. By the end of 1999, the government completed 288 privatization operations involving 136 companies, generating $797 million dollars in revenue (58.7 percent is held in foreign currency).

Tax and customs policies favor "offshore" Tunisian-based foreign companies which manufacture locally and export 80 percent or more of their production. Such operations enjoy 10-year tax-free status and other benefits. During the first nine months of 2000, 85 new offshore companies have been established, with 69 companies exporting their entire production. These enterprises have created more than 4,500 new jobs. Foreign companies that import materials for use or sale in the Tunisian market, however, have continued to see customs duties rise, where permitted by World Trade Organization (WTO) rules. This has adversely affected Tunisian-based U.S. companies that depend on materials produced in the United States for their products. In practice it remains very difficult for foreign companies to produce in Tunisia for the domestic market.

Tunisia has three Value-Added Tax (VAT) rates (6, 18 and 29 percent) based on the category of goods sold (i.e., luxury or staple products). In order to make up for the decline in import duties, the government raised its middle VAT rate in 1997 from 17 to 18 percent, and made greater efforts to enforce compliance on retailers, causing price increases on a wide range of domestic and foreign products. In 1999 receipts from VAT were $623 million, 34 percent above the 1997 level due to increased import volume. The estimate for 2000 receipts is $640 million.

As the government continues to modernize its power generation utilities and industrial infrastructure, its official policy has been to make contract bidding transparent and open to foreign companies. U.S. firms have been actively encouraged to bid on a number of procurement contracts. Unfortunately, between 1996 and 1999, official tender policies were not always strictly adhered to and factors other than price and quality of technology offered appear to have played a role in the awarding of contracts. Examples involving competing U.S. and foreign firms include contracts in the electronics and agricultural sectors of the economy. Such occurrences could deter U.S. companies from bidding on future public contracts. However, private sector sources gave the government high marks for its transparency and fairness in handling the bidding for the Rades II independent power plant. This project was won by a U.S.-led consortium in April 1999 and is worth between $400 and $450 million. In 2000 Lucent Technologies won two public tenders, with a combined value of $30 million, for supplying equipment to the government-owned telephone company.

4. Debt Management Policies

According to recent reports by the World Bank and the IMF, the government has managed its external debt portfolio well and has never had to reschedule its debt payments. Tunisia's budget deficit for 1999 was $729 million (3.5 percent of GDP). However, the deficit could fall below three percent in 2000 due to increased privatization receipts. Estimated GDP for 2000 is $20.8 billion. Tunisia's strong economic performance and low perceived commercial and political risk have been recognized in international financial markets, permitting the government to successfully float loans in the bond market. In 1997 the government tapped the U.S. market for the first time with the successful issuance of $400 million "Yankee" bonds. In 1999 Tunisia became the first African country to tap the euro denominated bond market with a successful $209 million bond offering. In 2000 Tunisia tapped into the Japanese market for the sixth time with two global Samurai bond offerings: $324 million over 10 years and $139 million over 30 years (Tunisia's first 30-year bond issuance). Another indication of Tunisia's sound debt management is that Standard and Poor (and Moody's) raised the government of Tunisia's rating from BBB (minus) to BBB.

In 2000 the government projected its foreign financing requirements to be approximately $503 million, a slight increase from 1999. Tunisia's foreign debt at the end of 1999 was $9.9 billion and is estimated to decrease to $9.5 billion by the end of 2000 (45 percent of gross revenue). Tunisia's debt service will rise over $1.5 billion (18.5 percent of income) this year.

5. Aid

Tunisia's USAID direct assistance program was terminated in 1998 due to the country's progress on economic growth and development. In FY 2000 Tunisia received assistance in the following areas: $7 million in military assistance ($4 million of Draw Down Authority and $3 million of Foreign Military Financing); $900,000 for International Military and Education Training, plus $150,000 in Department of Defense Humanitarian Assistance; $1.3 million for USNAEP programs; $44,000 for Democracy and Human Rights projects; and approximately $60,000 for Cocheran Fellowships through the U.S. Department of Agriculture. The government does not publish foreign aid figures; the amount of aid from other sources is therefore unavailable.

6. Significant Barriers to U.S. Exports

The most significant barriers to trade with Tunisia are the small size of the market and the legal and practical limitations to regional trade. While Tunisia allows approximately 85 percent of goods to be imported without a license, import duties range from 10 to 230 percent (e.g., duties on cheese are 133 percent and 200 percent on milk). In addition, certain luxury consumer items and durable goods face consumption taxes as high as 500 percent (small engine automobiles 50 percent, large engine automobiles 295 percent, champagne 500 percent). The consumption tax is used to offset the gradual elimination of tariffs, and is levied predominately on luxury goods regardless of whether they are imported or produced in Tunisia. Also, the VAT is applied to certain categories of goods at the retail level.

Import authorization is generally required for goods that compete against those produced by developing Tunisian industries, such as textiles. Licenses are also required for expensive consumer goods, such as automobiles. The stated purpose of the licenses is to allow nascent local industries to grow, and when U.S. exports to Tunisia are seen as competition, they have been limited or prevented from entering.

Customs administrative procedures are often complex and burdensome, requiring time and patience to complete the paperwork demanded by the authorities. Problems that arise are addressed on a case by case basis, and business or political connections can greatly affect the rate at which products are cleared. Most foreign companies choose to work with private customs agents to expedite the processing of their imports.

While foreign investment is welcomed in most sectors, investment barriers exist. For on-shore companies within the services sector (defined as those with more than 20 percent of output destined for the Tunisian market), the government must authorize any foreign capital share of more than 49 percent. In the agricultural sector, foreign investors are denied treatment on par with Tunisians. Although land may be secured on long-term leases (40 years), foreign ownership of agricultural land is prohibited. For foreign companies producing for the Tunisian market, local content provisions may apply, and hiring of foreign personnel is subject to regulation and usually limited to senior management. Foreign companies cannot distribute products locally without a Tunisian distributor. The establishment of foreign franchise operations continues to be a complicated process and, in practice, there are few franchises in Tunisia. There is no limit on the amount of foreign currency which can be brought into the country, but any amount over TD 1,000 must be declared at the port of entry and only the unused dinar balance of declared foreign currency may be reconverted and taken out of the country. Tunisia is hoping that the Association Agreement will increase U.S. manufacturing investment by offering duty-free exports to the EU.

7. Export Subsidies Policies

The government does not provide export subsidies to Tunisian companies. However, the government recently created an export assistance agency, FAMEX, which helps companies finance research and development in, and access to, targeted export markets.

8. Protection of U.S. Intellectual Property

Tunisia is a member of the World Trade Organization (WTO), the World Intellectual Property Organization (WIPO), the Bern Convention for the Protection Of Literary and Artistic Works (copyright), and the Paris Convention for the Protection Of Industrial Property (patent, trademark and related industrial property). As a member of WIPO and as a signatory to the UNCTAD agreement on the protection of patents and trademarks, Tunisia has pledged to protect foreign property rights.

In 1998 the U.S. Trade Representative named Tunisia to the "Special 301 Other Observations List" (the lowest level of inclusion) because of concerns over an absence of patent protection for pharmaceutical products, indicating that dozens of top brand medicines are sold on the local market without full IPR protection. For example, once medicine is manufactured in Tunisia, its importation is restricted, hindering access to the market for U.S. firms. In 1999 Tunisia did not appear on the "Special 301" list, because the "other" category was eliminated and it was determined that Tunisian IPR violations did not warrant inclusion in a higher category. Recent complaints of trademark piracy, largely in the field of apparel, and copyright infringement, such as software, recordings, and movies, indicate that IPR violation still remains a concern in Tunisia.

Registration of foreign patents and trademarks with the National Institute for Standardization and Industrial policy is required. However, Tunisia's patent and trademark laws are designed to protect only duly registered owners. In the area of patents, U.S. businesses are guaranteed treatment equal to that afforded to Tunisian companies. Copyright protection is the responsibility of a separate government agency, which also represents foreign copyright organizations. Tunisian Copyright Law has been updated, but its application and enforcement have not been consistent with foreign commercial expectations. Print and video media are considered particularly susceptible to copyright infringement. The Tunisian authorities have pursued IPR protection when the foreign company has made a formal and stringent complaint.

9. Worker Rights

a. *The Right of Association:* The constitution and the Labor Code stipulate the right of workers to form unions, which is generally observed. The Tunisian General Federation of Labor (UGTT) is Tunisia's only labor federation. About 15 percent of the country's work force are members, but a greater number are covered by UGTT negotiated contracts. The UGTT is independent of the government but certain laws restrict its freedom of action. The UGTT leadership has tried to cooperate with the government and support its economic reform programs, in return for regular wage increases and protection for workers.

b. *The Right to Organize and Bargain Collectively:* This right is protected by law and observed in practice. Wages and working conditions are set in triennial negotiations between the UGTT member unions and employers, and anti-union discrimination by employers is prohibited. Though the government does not participate in the private sector negotiations, it must approve, but cannot modify, the negotiated agreements.

c. *Prohibition of Forced or Compulsory Labor:* Tunisia abolished compulsory labor in 1989, and ended the practice of sentencing convicts to "rehabilitation through work" in 1995.

d. *Minimum Age for Employment of Children:* The minimum age for employment in manufacturing is 16 years, and 18 for certain hazardous occupations. The minimum age for light work in agriculture and nonindustrial sectors is 13 years, but children aged 13-15 may only work two hours per day. The government requires children to attend school until age 16 and employers must observe certain rules to ensure children obtain adequate rest and attend school. The UGTT has expressed concern that child labor continues to exist, disguised as apprenticeship.

e. *Acceptable Conditions of Work:* The Labor Code provides for a range of minimum wages, which are set by a commission of government, UGTT and employers' representatives. Most business sectors observe a 48-hour workweek, with one 24-hour rest period. The government often has difficulty enforcing the minimum wage law, especially in nonunionized sectors of the economy. Workplace health and safety standards are enforced by the government.

f. *Rights in Sectors with U.S. Investment:* Working conditions tend to be better in export-oriented firms than in those producing exclusively for the domestic market.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

(Millions of U.S. dollars)

Category		Amount
Petroleum		76
Total Manufacturing		30
Food & Kindred Products	31	
Chemicals & Allied Products	0	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	-1	
Other Manufacturing	0	
Wholesale Trade		0
Banking		-4
Finance/Insurance/Real Estate		0
Services		25
Other Industries		0
TOTAL ALL INDUSTRIES		127

Source: Department of Commerce, Bureau of Economic Analysis.