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An Evaluation of The Offshore Regime In Tunisia

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Abstract

The main purpose of this paper is to examine the offshore regime in Tunisia and to evaluate the direct effects that the introduction of this export promoting strategy has contributed with. Moreover the expected and actual economic effects on trade, employment and foreign direct investments will be evaluated and treated by the concept of the offshore cycle. The offshore regime has in Tunisia contributed and made it possible for Tunisia to start specializing into a production with higher quality goods. Although improvements have been made, the present and future brings challenges and obstacles for further progress of the economy in Tunisia. The offshore regime has given wanted and desired results but it seems as if its importance is fading out.

Tunisia



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List of Abbreviations

AAEU	Association Agreement with the EU
ATC	Agreement on Textile and Clothing
EU	European Union
EPZ	Export Processing Zone
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
IMF	International Monetary Fond
INS	Institut National de Statistique
LDC	Less Developed Country
MENA	Middle East and North African Countries
MFA	Multi Fiber Agreement
MNE	Multinational Enterprise
RIA	Regional Integration Agreement
RTA	Regional Trade Agreement
TD	Tunisian Dinar
VAT	Value Added Tax
WTO	World Trade Organisation

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1. Introduction

Tunisia is a small country of 9,9 million habitants situated in North Africa, with a close proximity to both the North African countries as well as the European countries. The location has given Tunisia the opportunity to establish cooperation and develop integration- processes with both of the areas. Tunisia has free trade agreements with the Maghreb¹- countries and an agreement with the EU as the first country in 1995 as a step towards a deepened integration between the two. By adopting and through the creation of economic reforms and social measures Tunisia is step by step becoming more and more open to the world market. These together with investment- facilitating policies and export- promoting instrument, such as the offshore regime concept, have helped Tunisia in improving its performance in a number of areas such as increase in investments, helped diminishing unemployment rate, and improved the trade balance. The offshore regime is a regime offering foreign companies investing in the host country for example advantageous tax and duty incentives and is often applied as part of economic reforms in order to achieve a higher level of growth. Although progress has been made, the present and future brings challenges and obstacles for further amelioration of the economy in Tunisia. It is true that the offshore regime has given significant results but it seems as if its importance is fading out. The expansion of the EU has brought new competitors to the market and the abolition of the Multi Fiber Agreement will increase the competition from Asia.

1.1 Purpose and Limitations

The purpose of this study is to evaluate the offshore regime and its effects and contributions to the economy, if and in what ways it has affected trade, employment and the attraction of FDI. Moreover we will examine if the offshore regime has succeeded to break the traditional low- value added production of manufacturing goods, and contributed to a production of higher quality goods which is important in a long-run economic perspective. We examine this

¹ The Maghreb countries are Tunisia, Morocco, Mauritania, Algeria and Libya

by an attempt of establishing where Tunisia is in the offshore cycle. We also discuss its potentials for the future. The evaluation of the offshore on Tunisia's achievements and potentials for economic development is limited to the direct effects of the offshore regime.

1.2 Plan of the Study

Chapter 2 begins with a presentation over the theoretical considerations of an offshore regime where the objectives and expected effects are discussed. Within this chapter we introduce the concept and the ideas of the "offshore cycle". The development of the offshore regime in Tunisia is discussed in chapter three. This chapter also includes a presentation of the incentives given to performing offshore firms. The chapter ends with a description of the offshore zone in Bizerte. Chapter 4 deals with the direct economic effects of offshore, assessing the effects of the regime on investments, employment and trade. In the closing chapter we conclude our findings and we try to point out some of Tunisia's future challenges.

2. The Offshore Regime and FDI- Theoretical Considerations

In order to analyze offshore and its contributions to the country's attractiveness and economic development there are several theoretical aspects to consider. The analysis of offshore and its possibilities to be a contributor for economic development has changed over time along with important changes in general trade patterns. Empirical evidence shows that offshore and FTAs can work as complements to each other, although some researchers mean that their logics work against each other.² We will come back to this later in this chapter.

The application of offshore is often only a part of economic reforms the country is aiming to fulfill as a step in the direction of increasing its trade and to achieve increased welfare, diversification of their industries and as mentioned earlier, to attract investments. Some countries installing offshore aim at the functioning of the zone as a motor of development from the start, as is the case of Mauritius. This is also called the catalyst, which means that the foreign companies trigger export-led industrialization, which may also have substantial growth implications in developing countries.³ This is treated further on in this chapter. Other countries like South Korea adopted the strategy of offshore when they already have developed the industrial base and already had started the diversification. The purpose of attracting investments is maybe one of the most common explanations of why developing countries adopt the offshore strategy. Among other purposes, the aims to stimulate employment and to provide foreign exchange earnings are among those mostly desired. If the adoption is really successful the spillover effects (such as knowledge, technology and demonstration effects) and improvement of scale economies are among the desirable targets of the implementation of offshore.⁴ In the following section we present some theoretical considerations, including the neo- classical theory and new growth theories. The relation between offshore and product fragmentation is also described. Moreover we describe what is important for countries or

² Cling, Letilly (2001), p.32

³ Johansson (1997), p.396

⁴ Madani (1999), p.13-14

companies looking at investing abroad, the factors that are vital for a country in order to attract FDI, that is. When having established this, we move on to shed lights on the expected effects when implementing offshore. In other words section 2.2 represents the objectives of the offshore regime. Next part treats the different view existing on the role of an offshore regime in an economy. Last we discuss the offshore cycle that we later in this study apply on Tunisia.

2.1 Economics of the Offshore Regime

The complex nature of the concept of economic development implies that our theoretical background should not be considered as a complete framework in determining the role of offshore for economic development. The purpose is rather to shed lights on and give a background to the different theories and the related diverging opinions of offshore in order to evaluate the case of Tunisia.

2.1.1 Neo-classical theory foundations

In general the neo-classical theoretical framework has been rather pessimistic towards the offshore as trade policy tool for economic development. Rather than improving resource allocation, the offshore regime is said to be harmful for economic welfare as a result of creating a dualistic industrial structure. The offshore has been considered as another way of import substitution, which in itself is a development in the opposite direction to trade liberalization.⁵

The potential gain for the host country through an increased inflow of Foreign Direct Investments (FDI) is not likely to occur, according to neo-classical theory since an offshore policy means removed tariffs, and a reduction in price of the final good. The firms in the offshore, facing international prices consequently have to accept lower return to capital than in the protected domestic sector. This drawback will rather discourage than encourage FDI

⁵ Samuel (2003), p. 24-25

inflow.⁶ Moreover, lower production costs cannot compensate for the high trade- and transaction costs. However, some researchers have an approach that is less pessimistic and find the offshore to be a second best solution to the best of countrywide liberalization. One example is Spinanger who disagree with the full employment assumption and find the offshore to be a way in which the countries can exploit their comparative advantages and increase employment.⁷

2.1.2 New Growth Theories

Looking at the offshore regime as a policy tool for economic development, the New Growth Theory stresses the importance of externalities e.g. learning by doing and human capital accumulation. Johansson inspired by this theory, found contrary to the neo-classical theory, that it may play an essential role by serving as an instrument to attracting FDI and create spillover for domestic firms in the industry. The focal point in her proposition is the catalysts: “a pioneer, which initiates and transmits the export supply response in the host country”. Through this catalytic effect, “the offshore can provide the critical mass needed to overcome the constraining export threshold that they face”. Referring to offshore case studies and other new growth theory, Johansson discusses the importance of the integration of the offshore into the host market. In addition to the offshore as a job creator there are also potentially knowledge and technology spillovers to achieve.⁸

2.1.3 Offshore and Specialization

Numerous economic models within New Trade Theories state that economic integration triggers specialization.⁹ Horizontal specialization can be defined as when a multinational firm produces the same good or service in multiple countries. Under vertical specialization, components are exported from a country producing the components to another country producing the final goods, and the country producing the final goods exports them to other

⁶ Johansson (2002), p.393

⁷ Baissac (2003), p.4

⁸ Johansson (2002), p.396

⁹ Brülhart (2001), p.4

countries. Rather than concentrating the production to a single country, the firms nowadays separate the labor- intensive production from other stages of production. This type of specialization is a way for all types of industries to reduce the transportation costs where there is a potential to break up the production stages parts of it. The product fragmentation permits industries to reallocate and exploit local advantages e.g. access or proximity to a larger market, cheap materials, good infrastructure, and lower costs for labor. Consequently the host countries specialize into the part of production where they find themselves most efficient.¹⁰ International fragmentation occurs if the numerous stages of production of a good take place in two or more countries. In the past the high costs for international communication, coordination, and transportation were barriers to fragmentation. Today those barriers have declined and the new technologies have improved the circumstances for international fragmentation. Another cause for the growing occurrence of fragmentation is the liberalization of FDI in many developing countries. The link between FDI and trade flows is close. A common case is when a MNE (Multi National Enterprise) from a developed country looks for a developing country for establishing a subsidiary where the MNE can produce goods that are labor- intensive intermediate goods. These goods are then shipped back home for assembly.¹¹

Industries that have the potential to fragmentize their production thus tend to reallocate the production to peripheral countries in order to minimize costs mentioned above, given that the extra cost related to the fragmentation process do not exceed the gains from the production abroad. These extra costs of reallocating the production to a peripheral country include coordination costs and increased transportation costs.¹²

Traditionally, horizontal specialization has been the way in which countries produce goods and service from scratch and then export them. One of the reasons why this type of specialization has been predominant is that each time a good passes a border a tariff needs to be paid. Thus with lower trade barriers the cost of crossing the borders becomes less important and the gains from producing only the part of the production where one possesses a comparative or absolute advantage, becomes larger. Today the improved communication, advances in media and shared advanced technology, such improvements have made it easier

¹⁰ Hummels (1998) p.84

¹¹ Cheng, Qiu, and Tan in Arndt and Kierzkowski (2001) p.165-166

¹² Athukorala (2003), p.5- 6

and relatively less expensive for such vertical specialization and trade with intermediate goods.¹³ Since smaller countries often find it harder to retain production of every stage of a good, the lowered trade barriers and therefore increased trade with intermediate goods therefore is a chance for these countries to increase their trade and their economic growth.

Crucial for countries aiming to increase trade through product fragmentation is to allow for MNEs, the key players in such trade, to invest freely in the country. Moreover, elimination of restrictions on FDI is needed.¹⁴

Offshore policy thus becomes a tool to accomplish the gains from product fragmentation. Hummels concludes that even if trade barriers are relative low today, the gains from product fragmentation could be even greater if those barriers were to be lowered even further. Once again the country's FDI policy thus becomes critical for the realization of trade with intermediate goods.¹⁵

Contrary to the neo-classical models that are characterized by perfect competition, homogenous products and constant return to scale, the location of firms is determined by natural endowments¹⁶, the new theories also claim that location rather is determined by the market size and the labor costs. Due to the decreasing trade costs, the degree of specialization will tend to increase.¹⁷ The lowered transaction costs provide producers as well as consumers with the possibility to “shop around” or to fragmentize the production. With decreased transaction costs firms have the possibility to reallocate the production. Since production factors are considered being mobile, this implies that high technology industries likely will allocate the production to high-skilled abundant areas whereas labor intensive industries, often manufacturing industries with less advanced technology, will allocate their production to labor abundant places where labor is relatively cheap. With these findings the offshore can, contrary to the generally pessimistic neo-classical view, be found as a temporary useful policy tool for increasing e.g. the inflow of FDI. Given that the reallocation, for the producer or investor, means a reduction in labor costs or/and access to a larger market.

¹³ Hummels (1998), p.92

¹⁴ Athukorala, (2003), p.9

¹⁵ Hummels (1998) p.92

¹⁶ see for instance: Fujita et al. (1999)

¹⁷ Brülhart (2001), p.217-218

Lack of a sufficient market is a common problem for developing countries. Free trade agreements therefore may play a crucial role to overcome the small market constraint and to strengthen the domestic production. Hence, the potential gains of offshore for a developing country are a combination of factors where FTA may be a critical one.

2.1.4 Factors for attracting FDI

One of the objectives of offshore is to enhance the country's attractiveness for foreign investments. The positive economic effects of FDIs are among others its positive impact on the macro- equilibrium, the technology transfer and those many associated positive externalities and spill- over effects for the domestic firms, which all increase the productivity.¹⁸ Studies have been made on which the determinant factors when choosing investment allocation some of which are mentioned in the following section.

One of the important factors for attracting FDI is economic and political stability. Evidently to secure the protection of the investments and also for the reason that it permits the foreign investor to evaluate the profitability of the investment.

Another important factor determining the location of FDI is the market size and the market potential, which means that the question if the market is sufficient and increasing, is central. The growing regionalism, which increases market size, therefore becomes a key factor for location of investments.¹⁹ Foreign market access is a determining factor when trying to attract export- directed FDI. The majority of developing countries that are successful in attracting investments are serving from trade agreements that give them preferential access to markets. This type of economic integration between countries with different levels of development so called "north-south" integration may be beneficial for both partners. For the southern partner, which is the focal point in our presentation, the main benefits come from the increased inflow of FDI to the country, which enables technology transfers and other potential spillover-effects strengthening the country's productivity. The FTA, which requires liberalization of trade policies, may also speed up the implementation of other trade liberalization reforms necessary to enhance the countries competitiveness on the world market.

¹⁸ Lahbib (2002,) p.24

¹⁹ *ibid.* p.54

In general it is difficult to predict if the trade agreements will have a catalyst effect on FDI decisions or not. To a certain extent though, they will strengthen a region's attractiveness to outside investors. This follows from the argument given by Blomström and Kokko (who more likely than Athukorala)²⁰, claim that FDI decisions more likely are determined by the internalisation of intangible assets than by reduction of trade barriers. The impact that the FTAs might have on the inflow of FDI depends on how competitive and complementary the countries are and the strong trade relations the countries had before the signing of the agreement. According to Blomström and Kokko, regional integration may have different effects on investors coming from outside of the integration than those within it, especially if high trade barriers against the rest of the world remain.²¹

According to Madani²², offshore and FTAs may be complementary to one another but in some cases they might work against each other. The offshore can attract foreign investors as the zones have preferential market access to non-member countries. The foreign investing companies use the zones as platforms to reach these other markets. One situation that can occur is if foreign companies use the offshore as a production location and for sales within the FTA. The attractiveness here lies in the fact that the foreign companies have access to a larger market.²³ This discussion will be further analysed in the application of these theories on the case of Tunisia.

Despite the fact that it is favourable for the investing companies with access to markets through preferential trade agreements, it is quite a paradox. Cling and Letilly mean that the economic logic of a free trade area works against the logic of offshore. On one hand, when duties on imports within the region disappears, the benefits for offshore on these imports are equal for all companies. On the other hand as the reason for regional trade agreements is to grant favourable access to regional trade, there has to be an elimination of benefits on duty free imports for companies with in the zones on imports within the region. According to Cling and Letilly in the case of North African offshore, they have a significant plus due to both the geographical proximity and to the agreements within the Europe- Mediterranean area.²⁴

²⁰ Athukorala (2003), p.10

²¹ Blomström, Kokko (1997), p.4-6

²² Madani (1999), p.58

²³ *ibid* p. 58

²⁴ Cling, Letilly (2001), p.33-34

Good infrastructure including roads, modern ports, modern tele- and internet communication are crucial for attracting foreign direct investments. The high costs for achieving a satisfactory standard makes the infrastructure become the developing countries' major weakness. The absolute advantage that many developing countries had, with their cheap labor, is an advantage that in the coming future not will be the only of importance. In order to maintain the attractiveness for FDI, the education system has to be reformed as well as the labor market including the wage setting.²⁵ Among the various financial advantages offered by the host country, those presented below are among the common ones for different types of offshore. The offshore firm and the workforce employed in it are given tax advantages, as well as duty free import of: raw materials, machinery, equipment, intermediate goods and capital goods, necessary for the production of exports. Furthermore the firms are offered more flexibility in application of the labor laws and simplified administrative and bureaucratic procedures.²⁶

2.2 Objectives of offshore

2.2.1 Employment

The effects of the creation of an offshore regime have both short run effects and long run effects. The implications of such trade policies can be analysed both from a macro- economic and micro- economic perspective with applicable direct and indirect effects. In our study the discussion will focus on the direct effects.

Employment creation is regarded as one of the primary goals for the host country. Still, difference in the contribution to job creation from offshore regimes is observed. In some countries the absolute numbers are impressive but in relation to the country's whole work force it is less encouraging. In other countries the offshore regime has been more important in relative terms. In many of the countries having implemented an offshore regime, the lion part of the work force in companies within the regime is women, especially in the textile sector.

²⁵ *ibid* p.30-32

²⁶ Cling, Letilly (2001), p.7-8

Thus, pursuing the goal of job creation has proven particularly beneficial to women's employment. However, after an initial phase of job creation, experience tells that this trend of a high proportion of women working in offshore firms seems to decline after some years with the regime. The reasons to this may be found in the change from a labor-intensive production to capital intensive. When the number of low-skilled jobs declines and more high-skilled workers are demanded, women who usually get less opportunity to education than men, lose their jobs. In addition, when the wages go up, men get more interested of getting an employment within the offshore so the job competition between men and women intensifies. Other reasons for the high number of women working in these companies are the fact that they are paid less, which makes them popular. The fact that they tend not to stay more than a few years, (after which they leave and get married), is seen as an advantage for the employers since the women, because of this, do not tend to get involved in labor unions.²⁷ Looking back at these effects of the offshore regime it can be mentioned that in most reports the wages are higher in the offshore companies than companies outside the regime. The wages vary along with company size, nationality, production, labor market conditions and country regulations.²⁸

Interesting when evaluating the offshore contribution to employment, is to look at how many jobs each industrial sector provides and to see if there is a tendency of an increased share of jobs in high quality production or not. Earlier studies made on offshore and its direct effects show that the majority of the jobs created are generally low-skill jobs. As mentioned earlier, the dominance of these low-skilled jobs does not offer a long-run economic development.²⁹ This can be related to the theory of the offshore cycle, which will be treated later on.

2.2.2 Export Performance

For a developing country where the domestic market often is small, the importance of increasing the export becomes crucial for the economic development. To increase growth many developing countries seek, by creating a more attractive business and investment climate and reforming the tax systems, to increase investment and thereby increase exports. Not only are there hopes of ameliorating the export performance in Tunisia but there are also aims at enhancing the local sub-contractors' production and trade. Moreover the foreign

²⁷ Madani (1999), p.34-36

²⁸ *ibid* p.45

²⁹ Cling, Letilly (2001), p.17

investors are hoped to carry technology, expertise and capital with them. The application of an offshore regime is among other things done in order to achieve the catalyst effect. This effect basically works as an engine, where the offshore companies through the “demonstration effect” have a deep impact on both the development and the industrialisation process in the host country. Johansson agrees with Rhee when stating that “the importance of first and foremost foreign enterprises as catalysts in export-led industrialisation”.³⁰

2.3 The expectations of the offshore regime

Many economists may agree on the offshore contribution of technological transfers and human capital development, the benefits for the workforce (learning by doing) and the catalytic effect the zones have. But some differences in views on the offshore exist. Some researchers define the offshore regimes as parts of reforms undertaken for enhancing the economic situation and they have in this context a determined “age”. In other words the offshore are supposed to be losing their importance as the economy develops and improves its competitiveness and openness to trade. According to this view the export from the zones in the country’s total export will fall when the offshore has fulfilled the expected goals. The same goes for the employment in the zones. Others find that the main role of offshore is to provide a certain level of foreign currency to cover the imports of the host country and also to assist in the job creation. The offshore in these countries provide limited economic effects if not accompanied by liberalization of the rest of the economy.³¹

In a study by Andrew Shrank the difficulties for the local manufacturers to penetrate the world market through the implementation of offshore, is discussed. He means that their achievements in that area more likely are determined by the country’s custom’s area and the size of the market. According to the study of Shrank the offshore are supposed to become redundant as the industrial structure develops. In addition, as mentioned above, they are meant to create relations between the local producers and foreign investors and create a demand for the local producers on the world market, something that according to empirical

³⁰ Johansson (2002), p.396

³¹ Madani (1999), p.17-18

studies seems to be difficult to realize. Shrank also points out the complications that lie in trying to make an assessment of the impact of offshore, since the knowledge of what would be the case in the absence of offshore doesn't exist. In the study, Shrank concludes that when it concerns a small country applying the offshore regime, the likelihood of the domestically produced inputs reaching the world market is not big, and the same goes for the domestically produced goods that try to reach the exporting companies.³²

2.3.1 The Offshore Cycle

The lack of technology and capital makes it almost obligatory for a developing country that is aiming at opening up its trade towards the world market, to have a competitive manufacturing industry. The transfer of technology and know-how coming from foreign companies installed in the offshore companies can help the country to meet the international competition.³³

The effects of an offshore regime on an economy may be considered as different phases of a development cycle. The different stages in the cycle represent changes in production evolving from textile to more qualitative goods such as electronics and high technology goods. Alternatively the offshore cycle can describe the relationship between the instauration of an offshore policy and the development of product fragmentation.

The transformation from being an import- substituting country to become an export-promoting defines the life cycle of the offshore regime. The cycle consists of three phases. It starts with a take- off phase that aims at attracting foreign investments in order to cover the costs for implementation of the zones, and to boost the creation of jobs. It is more likely that it is the labor- intensive companies such as those within the textile- industry that are interested in the offshore concept, and not the capital- intensive ones.

The following phase is the maturity phase where the goals are transfer of technology, know-how and other spillovers. It is now vital with a certain level of the skills of the work- force more than the quantity. Most often the electronic and chemistry sectors are encouraged in order to reach this point. During this phase the links with the domestic producers are enhanced through increasing trade with local sub- contractors.

³² Schrank (2001), p.224-225

³³ Bellon, Gouia (1998), p.173

Finally, it is the integration phase. It is a phase where the local companies receive the same preferential treatments as the foreign investors. The exports from the companies within the zones decline and comparative advantages phase out. The level of competitiveness has reached a level where it can stand up to the international competition.³⁴

According to a study made by Cling and Letilly, most countries find it difficult to reach the take-off phase. This means that the countries neither have managed to modify the structure of the sectors nor to reduce the offshore regime's contribution to exports. The direct and indirect effects of the offshore have been smaller than expected. Experiences from earlier offshore tell that the impact of this trade policy diverge a lot. Furthermore the capacity of offshore as a motor or a catalyst for development cannot be valued the same for all countries instead as a temporary complement to further trade liberalization.

Cling and Letilly refer to two possible strategies with regard to the use of offshore as a tool of national development. The first strategy is the "high road" where the offshore works as catalysts and strengthens the national economy both through direct and indirect effects. This demanding strategy privileges the quality over the quantity of jobs created. In a long-term perspective this is most beneficial for poverty reduction and economic development. This strategy though needs a certain level of economic development. Tunisia, Korea and Costa Rica are examples of countries that follow this strategy. The second strategy called the "low road" is largely the opposite where the offshore is considered as a source of employment regardless of quality. Eventhough advantages are offered to companies investing in the country, the investments are not sufficient for the country to reach a higher level of economic development since the country finds it hard to change the production from low-quality goods into high-quality production.³⁵

³⁴ *ibid* p.174

³⁵ Cling, Letilly (2001), p.24-25

3. The Offshore Regime in Tunisia

Tunisia's geographical position is very strategic economically because of its proximity to both the Arab countries and to the European countries. In order to strengthen the economic development Tunisia has worked for enhanced cooperation and trade with the both regions. Their aim at creating an African Union and an Arab Maghreb Union were steps in the direction of strengthening the collaboration within the areas. Furthermore the signing of deepened agreement with Europe in 1995 as the first country showed Tunisia's interest in keeping and enhancing relations with their trading partners. Although these are all positive for the country's development, there are obstacles and difficulties that they have to pass in order to not lag behind other developing countries. Trade competition is constantly increasing and new competitors like the eastern European countries are threatening their position. Not only does Tunisia have to compete about the market- shares but also about the investments. In order to attract more investments, improve the employment rate and reach a higher level of exports and trade, an offshore regime has been elaborated. The offshore regime and the zones have helped Tunisia reach the position in which it is today (see also table 7 in Appendix). Even more important for Tunisia's competitiveness is the on-going liberalisation, the adoption of economic reforms, the implementations of social measures and their eager to cooperate and enhance trade with their partners by the signing of agreements.³⁶

To make an analysis of Tunisia's competitiveness possible, we begin in the following chapter to present the incentives given to companies investing within the offshore regime in Tunisia. The incentives concern the taxation, the labor regime and the rules for foreign trade. Furthermore a presentation of the economic park of Bizerte follows. The difference between the offshore and the EPZs in Tunisia (e.g. Bizerte) is that the offshore is a regime applied to companies with no geographical restrictions, whereas Bizerte is a geographical limited area, a zone under a set of special rules. Further on it is the concept of offshore that we treat, except for the part presenting the EPZ of Bizerte. Next we describe the other parts of the competitiveness such as: comparison in competitiveness, the benefits of the country's proximity, the development of market- shares, trade- relations and their accomplishments

³⁶ Saddam (2001)

within integration (agreements etc). We end with evaluating the weaker parts in the Tunisian economy: the phasing out of the MFA and reasons for companies closing down. Many of the studies and results presented in this chapter are treating the textile sector. Due to lack of data and studies made over other sectors, the textile sector will have to be representative for the competitiveness of Tunisia.

3.1 The Offshore Regime in Tunisia

The start for the offshore regime in Tunisia began in the early 1980's when both economic reforms and political incentive programs were introduced. Tunisia started by implementing a legislation that only was administrative and not geographically bounded. A favorable regime was given to the exporting companies in the industrial sectors. Generally speaking this new legislation dealt with new investment codes and a new harmonized system less bureaucratic than the former. The companies within this regime are since then called offshore companies.

Like many other developing countries aiming at adopting export- led growth strategies, Tunisia applied the offshore regime as a key instrument for the improvement and to speed up the economic development. The international competition of foreign investments forces the competing countries to continuously level their business climates and improve the favorable regime. For developing countries like Tunisia the importance of FDI is even more important cause of the lack of scarce capital.

In 1992, Tunisia approved of a law for geographically bounded zones, and the zones of Bizerte in the north and Zarzis in the south were created. They were installed in order to offer an even more favorable environment for foreign investors. The two export processing zones are independent of each other and need not follow any common design or implementation of rules. The geographic aspect as well as the infrastructure and proximity to the markets give both Bizerte and Zarzis a great potential to attract foreign investment into the zones.³⁷

³⁷ Bellon, Gouia (1998), p.174

In this part we enlighten the design of the offshore regime in Tunisia, which incentives that are given to investors, and we also present the most interesting of the two zones, Bizerte. In addition to the zone of Bizerte, this northern part of Tunisia is where most foreign investors are located. A map over Tunisia is provided in the Appendix.

3.1.1 The Incentives

Exporting firms

All firms and operators within the offshore regime are exempt for a period of eleven years from the following duties and taxes. The advantages presented below are available for foreign investors as well as for domestic firms as long as they export at least 70 % of their production. For firms exporting less than the 70 %, the advantages are given simply with the same percentage as the firm's share of exported production.³⁸

Companies exporting at least 70 % of their production are offered full tax exoneration of company tax. They are also exempted from customs tariffs for raw materials, goods and equipment and for reinvested profits. Furthermore they have deduction of full profits, accruing from export- transactions from the tax base liable to corporation tax the first ten years of activity. After ten years, the companies are offered a deduction of 50 % of the profits for exports- derived production. Investments made by a company's set-up in free zones give right to a deduction for income or profits invested in the initial corporate capital subscription or in its increase, to a deduction of the net taxable income and profits for natural persons or companies. Foreign investors also have tax relief on reinvested profits and income up to 35% of the income or profits subject to tax, customs duties exemption for capital goods that have no locally-made counterparts, and VAT limited to 10% on capital goods imports (1999 Finance Act provisions). Foreign staff and investors or their foreign representatives in charge of managing the company, benefit from: the payment of a flat-rate tax on income at 20% of gross income, a customs duties exemption and exemption of comparable taxes, and those required on imported personal belongings and a passenger car per person. Moreover the offshore regime provides the companies with free transfer of profits, free imports of goods

³⁸ Attia Mohamed

necessary for the activity and freedom to sell 20 % of the output to the domestic market (in special cases up to 30 %).³⁹

Labor

Since 1994 a labor code governs the professional relationships in Tunisia. The labor code involves both offshore activities and general regime activities. In addition there are special international agreements related to the fundamental right to work. According to the labor code, the productivity should be considered when determining the salary. The working hours are decided on basis for the company's needs. The international agreements ratified in Tunisia concerns minimum age accepted to work, a protocol on night work for women, and vocational training in optimizing human resources. Labor contracts are freely considered as limited time working contracts. Businessmen can freely hire foreign manager's supervisors up to 4 per company. Foreign nationals, who are non-residents before their recruitment, can choose another social security system other than the Tunisian one. Tunisia concluded social security bilateral agreements with France, Belgium, Algeria, the Netherlands, Libya, Austria, Italy, Germany and Luxemburg. The objective of these agreements is to guarantee the rights of expatriate employees as regards social security. These agreements include the principles of equal treatment of citizens from both countries vis-à-vis social security regulations.

The level of wages is determined based on private sector wages agreements or is freely-negotiated between employers and employees, providing conformity with the legal minimum wages determined by law. In 2005 the minimum wages was 194.8 TD for 40-hours/ week work and 224.2 TD for 48-hours/ week.

Labor- flexibility is offered through fixed-term work contracts and the non-resident personnel are offered exemptions of tariffs and taxes on personal goods.

³⁹ FIPA (2005)

3.1.2 The Offshore Zone of Bizerte

The offshore zone of Bizerte is called Bizerte Economic Activities Park and is situated in the north of Tunisia, a strategic position with its proximity to the Mediterranean and its main trading partner EU. The park offers an infrastructure of a higher development than in the rest of the country and also a well-qualified working force. This limited area of 51 hectares is divided into two parks, the site of Bizerte and the site of Menzel Bourguiba. The companies within the zones are specialised within the sectors of service, electronics, and mechanic industries, food processing and industries of nautical shipbuilding. The region of Bizerte holds over 500 manufacturing and production amenities of which 220 companies are totally exporting. Within the manufacturing sector, the biggest sectors are as already mentioned electronic and electric components, and further textile, leather, shoes, ceramics, shipbuilding and food processing.

Infrastructure offered within the zone is the port, the road transport, the rail network and the air transport. Bizerte also offers road and car parking, telephone networks, electrical supply networks and waters supply. 25 % of all the exports of Tunisia are shipped out of the port of Bizerte, and the same figure for imports is 29 %. The road transport has been improved by the construction of the highway between Bizerte and Tunis. Furthermore the Economic Activities Park of Bizerte is capable of offering training within different professions since it is equipped with training centres within for example design and industrial textile, electronics, electro-mechanics, metallic construction and more.

To attract companies to invest in Bizerte, several economic incentives are offered. Here follows the most important: total franchise of the profits or income taxes, suspension of the VAT on local purchases, exemption of the reinvested profits, free imports of necessary equipments, free investments, possibility to employ on a “limited duration contract”, and an One-Stop-Shop to facilitate the administrative processes and recruitment process. These free support- services, helps the investors with all administrative formalities from the start and through the whole period of cooperation. The services include for example: assistance with staff recruitment, technical support and incorporation procedures of the activity on the market. All details are formulated in the special set of laws for the Bizerte offshore in which one also

can take part of all rules subject to management of the economic activities, general provisions as well as employment and social security systems.⁴⁰

⁴⁰ Invest in Tunisia (2004), p.7-18

4. The Direct Economic Effects of Offshore

In the previous chapter we evaluated the competitiveness in Tunisia where we considered the offshore regime as a key-instrument for ameliorating competitiveness and economic development. In this chapter we take a closer look at the direct economic effects of the regime in terms of investments, employment and exports. The expected effects from a country's creation of an offshore regime are: increased FDI- inflow, employment creation and increased exports. These expected effects, treated in chapter 2, are assessed in this chapter in order to evaluate the impact of the offshore regime in Tunisia.

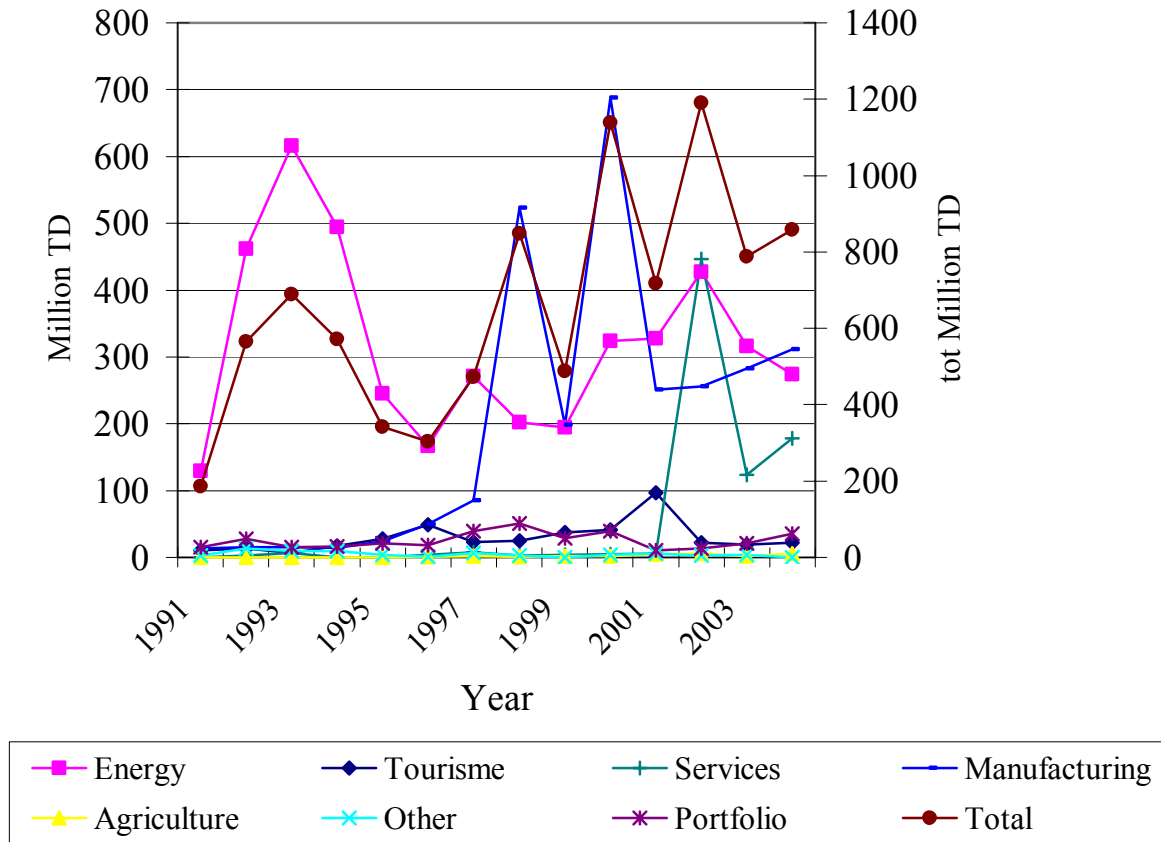
4.1 Investments

One important objective for implementing an offshore regime is to attract FDI. The development of inflow of FDI in Tunisia between 1991 and 2004 can be seen in figure 1. In Tunisia the role of the offshore regime for investments has been important, especially in the early stage of the development of the export sector. In addition to the incentives given to offshore companies, external conditions and market access seem to gain importance for investors when decisions are taken of where to allocate the production.

Figure 1 shows that the total investments grew rapidly between the 1998 and 2000. In 1995 the investments was measured to 350 million Tunisian Dinars. In 2004 the investments had increased to a value of 851 millions Dinars. The important increase of investments is mainly explained by the progression of the manufacturing sector, which represented 8 % of the investments in 1995 and 65 % in year 2000. The major reason for the increase of investments during this time may be explained by the intensification of privatisations, the implementation of the offshore regime and an all over increased trade liberalization. Which one of these factors that best explains the increased inflow of FDI is difficult to determine.⁴¹

⁴¹ UNCTAD (2003), p.39-40

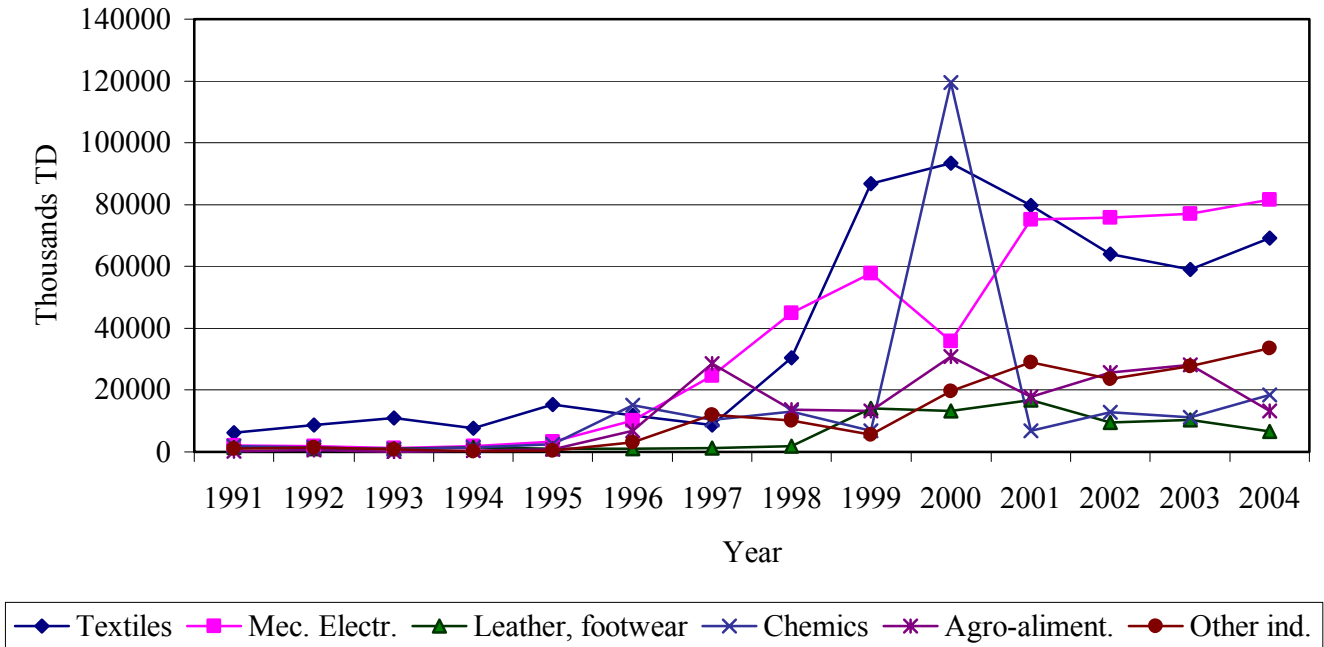
Figure 1. FDI inflow: by sector 1991-2004



Source: Ministère du Développement et de la Coopération Internationale, 2005

Moreover the figure shows that energy sector which in the early 90's complied almost all direct investments now show a decreasing trend of FDI. (See appendix table 4)The appearance of direct investments in manufacturing in the mid 90's and its continuing increasing trend, is of special interest since these direct investments arouse only a few years after the implementation of the off-shore regime in 1992. This increasing trend of FDI in the manufacturing sector thus shows the potential of the branches within this sector, a development that is in line with the efforts made on manufacturing to strengthen Tunisia's position on the world market e.g. by offering firms offshore status. In the following sections we will take a closer look at the branches in the manufacturing sector in order to tell what branches proving to be interesting for foreign investors.

Figure 2. FDI inflow: manufacturing, by branch 1991-2004



Source: Ministère du Développement et de la Coopération Internationale, 2005

In figure 2 the inflow of FDI in the manufacturing branches in Tunisia is presented. (See appendix table 5) Except for the FDI in the chemical branch, which prove to differ a lot from year to year, the other branches show a slow but increasing trend. The domination of the textile sector also applies for the inflow FDI. After the decline of FDI between 2000 and 2003 the amount of FDI now increases despite the harder competition from neighbour countries and the dismantlement of the MFA in 2005. The important increase of FDI in the mechanical/electronics branch started during 1996. Except for a temporary decline in year 2000, the direct investments have grown fast.

The fact that the electronic industry is rather footloose and relatively independent of resources other than capital makes the branch potential for the development of product fragmentation. The fast growing inflow of FDI, that is shown in figure 2, in addition to the export data (provided in chapter 4.3) points to a continuing development of product fragmentation for the Tunisian industry. Leather and footwear has not experienced the same upswing in FDI as the

two other major manufacturing industries. Still one can note an increase in the direct investments starting in the mid 90's.⁴²

4.2 Employment

Another major goal for the implementation of an offshore regime is creation of jobs. For Tunisia, a small country with a rather high unemployment rate⁴³, the offshore is a good investment for reducing the unemployment rate. In figure 3 total employments between 1996 and 2004 is shown and the share of employment created by the offshore regime.(See appendix table 6) According to the data in the figure, the offshore regime counted for 7 % of all jobs in 2004. (See also appendix table 1). In number of jobs 243 126 jobs were all in the offshore sector. The total number of jobs in the industrial sector was 446 104 in 2005 which means that the offshore regime counts for more than 54% of all jobs in the industry.⁴⁴

Figure 3 indicates an increasing trend of offshore employment. In addition to the offshore's direct contribution to the employment, the regime also granted important indirect job creation. Data on indirect employment is however not available for Tunisia. Potential indirect creation of jobs comes from the increased domestic demand for goods and services due to increased income and also increased demand due to the instauration of new companies.⁴⁵

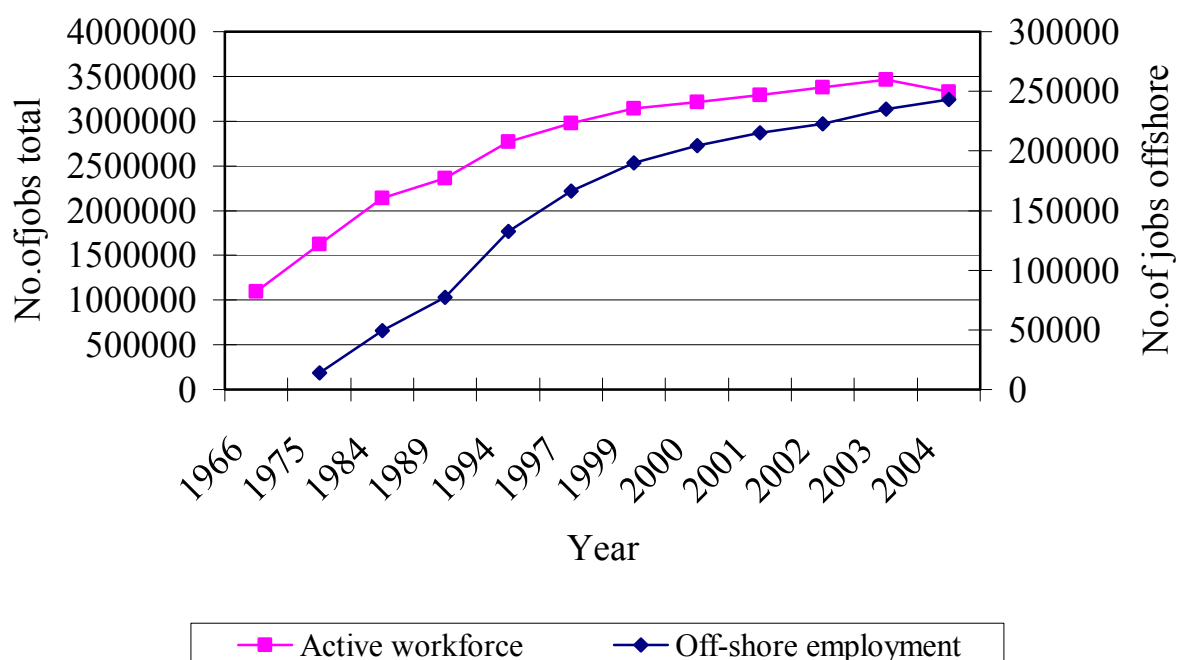
⁴² 13,9 % in 2004, according to the Central Bank of Tunisia (2005), p.106

⁴³ Budget Economic (2005), p.2

⁴⁴ Agence de Promotion de l'Investissements (2005)

⁴⁵ Bellon, Gouia (1998), p.167

Figure 3. Employment: general regime and offshore regime



Source: Ministry of Employment in Tunisia 2005

4.2.1 Sectoral distribution

In the following section we will look at the job creation within different offshore sectors and branches in order to evaluate the possible job quality improvements.

According to the discussion in chapter 2 there are both expected short run effects and possible long run effects of the offshore on employment. The implementation of the offshore regime in Tunisia has created nearly 250 000 jobs. What long run effects the creation of these jobs will mean for the economic development in Tunisia is though difficult to say. By looking at the number of jobs created in different offshore sectors one can see if the typical offshore job is a low- skilled job or if the regime also has developed more sophisticated jobs. In general the advantage that most developing countries possess and consequently is what attracts foreign

investors is their inexpensive labor. If the offshore is successfully integrated with the rest of the economy the creation of high- skilled jobs may be possible.

Table 1: Employment Offshore 2004

Sector	No. of jobs	%	Manufact.by branch	No. of jobs	%
Manufacturing	216489	89,06	Textile, clothing	126648	58,50
Services	4702	1,93	Electronics	30656	14,20
Agriculture	1733	0,71	Diverse industries	17610	8,11
Tourism	16951	6,97	Leather, footwear	17221	7,95
Energy	3250	1,33	Mechanical, metal	9672	4,46
			Construction materials	6929	3,20
			Chemical	7753	3,58
Total	243125	100,00	Total	216489	100,00

Source: Ministère du Développement et de la Coopération Internationale 2005

According to table 1, the manufacturing sector is the predominant sector for job creation within the offshore regime. In the second column the different branches within the manufacturing sector are presented. Textile and clothing, a typical labor- intensive industry counts for nearly 60 % of all offshore employment. Interesting though are the two sectors electronics, and leather and footwear creating 14 % and almost 8 % of the offshore jobs respectively. To sum up the employment within the offshore are mainly made up of typical labor-intensive industries where the textile sector is the most important job provider. Branches like electronics, leather and footwear and the mechanical sector that are more capital- intensive industries than the textile are however not of negligible importance. The increasing importance of these latter sectors referring to an increased inflow of FDI to these branches may partly be explained by the development of product fragmentation where the offshore regime may have played an important role for attracting necessary capital.

4.3 Trade Performance

Export promotion is getting more and more attention in Tunisia as well as in other countries in the MENA region. Along with an export friendly environment the countries hope to attract investments and then increase exports and growth. Export-led industrialization in a developing country like Tunisia can be achieved by attracting foreign companies to invest and thereby the offshore regime can work as a catalyst.

Tunisia's exports have grown during the years, as a direct consequence of the offshore regime.⁴⁶ Table 8 in the Appendix show the exports from Tunisia to the EU are almost three times larger in 2004 than in 1990. Almost 85 % of Tunisia's exports go to Europe, while a little less than 79 % of all imports come from the European countries. The imports were more than threefold in 2004 compared to the imports in 1990. In following section the trade with Tunisia's main trading partners will be presented. The table 8 in the Appendix show the development of export and import between 1990 and 2004 for Tunisia's ten most important trading partners.

Tunisia's main and most important economic and commercial trading partner is the EU. Tunisia was the first country to sign a free trade agreement in 1995 with the EU, the Association Agreement with the EU (AAEU), as one of the pioneers in the Barcelona process. The Association Agreement contains prerequisites of phasing in free trade for industrial goods over 12 years. A preferential access for all goods to the European market is the aim while Tunisia removes (under 12 years) all tariff and non-tariff barriers to imports of industrial character from the EU. The goal is to go even further than cooperation and harmonization between Tunisia and the EU and aims at abolish all types of distortions to trade between the two partners. Facilitating the integration within the Maghreb- area, reinforcement of the economic and financial support to those industries that have trouble adjusting to the liberalization, and harmonization of infra- structural standards and norms are other targets that all fits within the framework of the agreement. The expected impact of the agreement is deepened and strengthened the integration between Tunisia and the EU and with the world

⁴⁶ Soliman (2003), p.2

market.⁴⁷ Tunisia's geographical advantage in the proximity to European Market is not only an advantage due to lower transport- costs. It is also an advantage because of the lower reaction time in the neighbour countries. For example the normal responding time for a Tunisian company is three weeks to answer an order. The time for an Asian company is two to three months (with transport by boat).

In the recent years, the textile sector has seen a fall in its markets shares on the European Market for some of its products, which is a consequence of the new prerequisites such as the dismantlement of the MFA and the adherence of China in the WTO. Even though Tunisia has well- grounded and well- established relations with European countries, such as France and Italy, the elimination of the MFA, will have implications for Tunisia's forthcoming trade with the EU: the competition will definitely increase and the biggest threat is naturally China.

4.3.1 European and non- European Trading Partners

France is Tunisia's biggest trading partner. Between the years of 1990 to 2004 the imports from France increased from 1345 million TD to almost 4000 million TD and today Tunisia exports to France nearly as much as they import from the country. This could be interpreted as if Tunisia imports intermediate goods from France and re-export them to France as final goods.

Italy is Tunisia's second most important trading partner. The amount of both imports and exports was measured to around 3000 million TD in 2004. The third biggest trading partner within Europe is Germany, from whom Tunisia imports around 1300 million TD and exports around 1100 million TD.

The imports from the African countries have also four folded since 1990. The exports to African countries were three times bigger in 2004 than 1990. Among the African countries Libya is their biggest trading partner. Imports from Libya were in 2004 approximately 500 million TD and exports a little bit less. The imports from the United States are almost

⁴⁷ Enders, Jbili (1996)

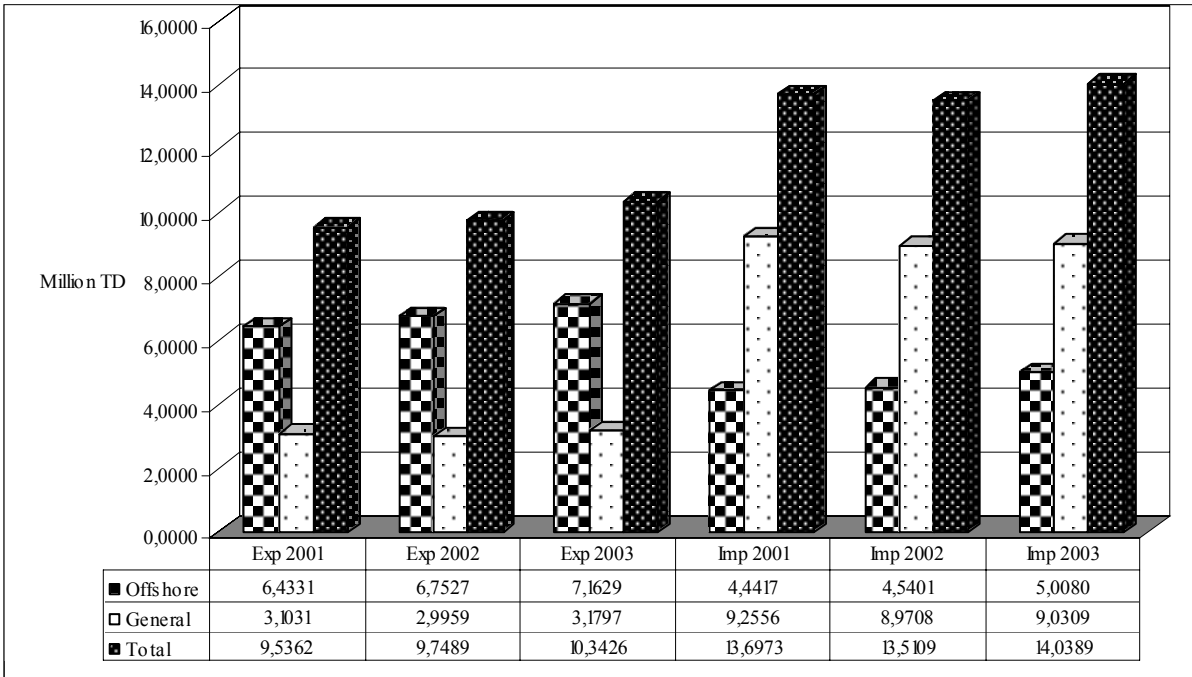
comparable to the imports with the one for Libya, although the imports in 2004 were slightly smaller, whereas the exports to the United States are not really comparable to those of Libya. Despite increases during the period, the exports are somewhat comparable to those of India. They only contain a third of the exports to Libya.

4.3.3 Trade by regime - offshore and general regime 2001-2003

The implementation of the offshore regime has clearly contributed to increased exports for Tunisia. By looking at the total exports and the share of exports coming from the offshore regime the direct effect of the offshore on export can easily be shown.

The offshore regime accounts for around 70 % of total exports and its contribution to export is increasing. The performance in exports primarily comes from important sales in textile, leather and footwear and increasing sales from the mechanical and electrical industry. The mechanical and electrical industry is the fastest growing. In 2003 these two branches together with textile and leather/footwear accounted for 92 % of exports and 88 % of imports within the offshore regime.

Figure 4. Trade by regime 2001-2003



Source: Tunisian Central Bank 2005

The general regime thus accounts for 30 % of total exports with most of the sales coming from the agriculture sector. Energy product is the fastest growing industry in the general regime. The general regime accounts for 64 % of total imports. Thanks to increased exports by the offshore regime, the balance of trade is narrowing.

In 2003 the trade deficit was 3696 million TD in comparison to 4161 million TD in 2001.⁴⁸

4.3.4 Sectoral trade performance and the B-index

According to the diagrams over inflow of FDI to the Tunisian export industry, it appears that Tunisia is experiencing a change in its industrial structure where the historical predominance of the textile sector seems to be declining eventhough slowly.(See appendix table 4 and 5) One way of analyzing the development of the industrial structure in a country is to look at the change in trade of each of its sectors. This can give us an indication of which type of production Tunisia is specializing into and which sectors they are specializing out of.

The B-index (tables over calculations of the B-index is to be found on the next page), suggested by Brühlhart, defines sector performance as the difference in change of export (X) and change of import (M) in relation to each other. In this index, the export represents superior domestic performance and import represents weak performance for the current sector. The two-dimension index indicates both the share of marginal intra- industry trade (MIIT) and the sector specific performance. B, in this index takes the value from -1 to +1 where B = 0 means that the marginal trade in the sector entirely is of intra- industry type. B = -1 and 1 represents marginal trade to be entirely of inter-industry type. Hence, B is directly related to the sector performance where B > 0 follows that $\Delta X > \Delta M$. The opposite holds for B < 0. The index shows which industries that do not, given an increase or decrease in trade inflow, affect the international pattern of adjustment and inter-industry specialization.⁴⁹ If in a certain industry, export expands faster than imports, we say that the country is specializing into this activity.⁵⁰

⁴⁸ Central Bank of Tunisia (2005), p.123

⁴⁹ Brühlhart, Hine (1999), p. 47-49

⁵⁰ Brühlhart, Hine (1999), p. 63

In the table below, the B-index is presented for the three most important manufacturing sectors in Tunisia. According to table 2 below, B takes the value near to zero for all the three manufacturing sectors. This indicates that the marginal trade for the manufacturing sectors in Tunisia is entirely of intra-trade type. This means that there is a simultaneous export and import of products within the same industry. However we cannot from this table determine whether it is a horizontal or vertical specialization. If there is a increased unit value per tone of exported goods, the specialization is vertical.⁵¹

Table 2. The B- index, Trade Structure

B	Textile	Shoes/Leather	Electronics
93/97	0,00002	-0,00001	-0,00057
97/00	0,00002	0,00008	0,003
00/04	0,00004	0,00015	-0,00007

Source: INS Tunisia 2005

The B-index also allows us to determine the sector performance. Table 3 shows that the textile sector is the most important of the three manufacturing sectors. The important value of textile export indicates that the country is specializing into this sector. For the other two sectors the values are much lower but still we can see that the export in 2004 was bigger than the import. These results agree with what we have stated earlier, that the electronic and shoes/leatherwear, are two growing export sectors in Tunisia.

⁵¹ Brülhart, Hine (1999), p. 73-74

Table 3. The B- index, Trade Performance

	Absolute change		
IMP	Textile	Shoes	Electronics
93/97	696,9	70,8	58,3
97/00	336	27,8	20,2
00/04	539,1	63,4	208,8
EXP	Textile	Shoes	Electronics
93/97	1034,3	151,3	28
97/00	566,6	117,2	77,4
00/04	1190	188,7	214,2

Source: INS Tunisia 2005

4.3.5 Vertical specialization

According to Brühlhart one way to determine whether the trade for a specific country is of vertical or horizontal intra-industry type, is to measure the value per unit. In order to see if the trade of Tunisian manufacturing goods, which according to the B- index proves to be of intra-industry type, also involve a vertical specialization, we have looked at the value per unit of Tunisian export. (Figures are to be found on the next page) Data is collected from the OECD database where Italy and France, Tunisia's most important trading partners, are chosen to show the development of the Tunisian trade pattern.

Common for trade both with electronic, leather and footwear and textile is an increasing value per unit. Although this development is most clear in the case of leather and footwear. For textile, the value per unit has been quite stable what could indicate that no important quality improvements have been made. According to the Foreign Investment Promotion Agency (FIPA), the textile sector is undergoing a change in production into a more sophisticated production. But still low value added goods such as clothes dominates the trade with textile. See Appendix table 11 for Tunisian textile export and table 12 for estimations on values per unit.

The all over picture is however that the value per unit has risen in recent years, particularly for the leather and footwear and electronic industry. The trade therefore shows a measure of vertical intra-industry trade.

Figure 5a: Value per Unit: Electronics

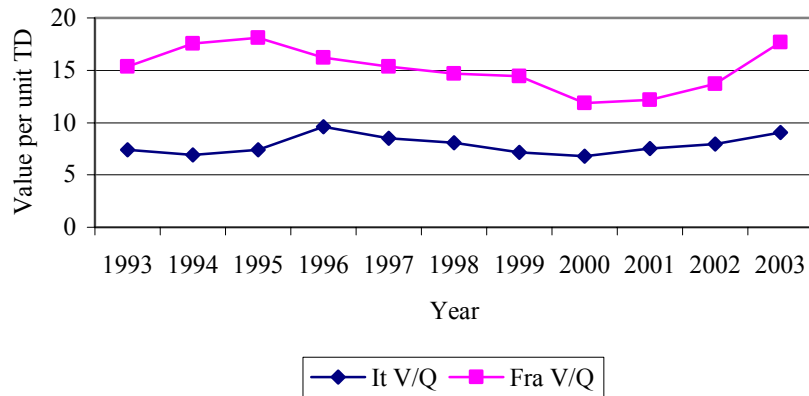


Figure 5b: Value per Unit: Leather and Footwear

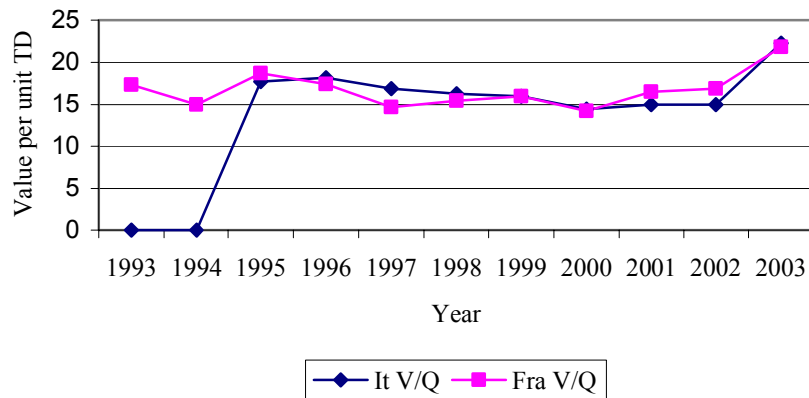
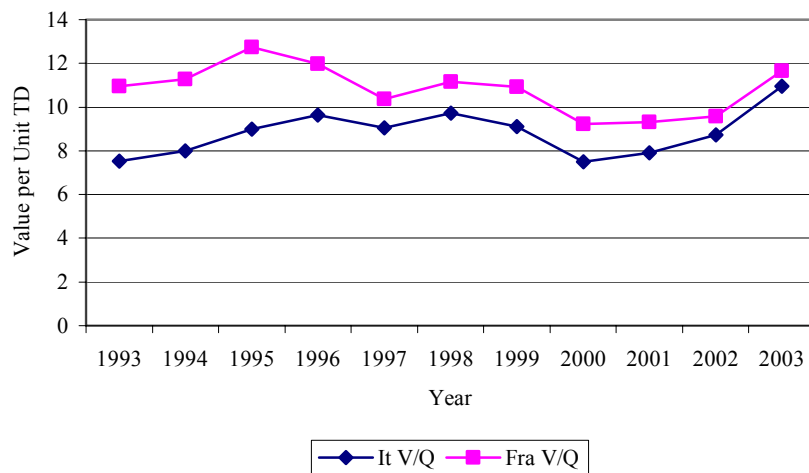


Figure 5c: Value per Unit: Textile



Source for figures 5-7: OECD 2005 [SITC Rev 3]

To summarize, the direct effects of the offshore regime in Tunisia is first of all an increased export, here the offshore regime stands for over 70 % of Tunisia's total export. The offshore regime has also supplied Tunisia with a great amount of jobs, an effect that shows a steady trend. Most jobs though, are typical low-skilled jobs in the textile industry. The offshore regime has also in terms of trade liberalization, thrived the FDI inflow to Tunisia. The all over trade performance is multiplied with a strengthen integration with the EU, a more attractive market place for direct investments and with a raised value of Tunisian export. Also note that even if the textile dominates Tunisia's export, the electronics sector has grown fast in recent years. The progress in the electronic industry indicates that Tunisia is narrowing its goal of specialization into a more high-quality production.

5. In guise of conclusion- the fall of the offshore regime?

Tunisia's application of an offshore regime has had impact on the Tunisian economy both in terms of direct and indirect effects. The obvious direct effects are the important augmentation of FDI, exports and employment where the offshore regime has proven itself to be a key instrument in ameliorating the business climate in Tunisia. Looking at the development of different industries, the offshore regime has helped the economy to develop a specialization towards higher quality products although the industry still is dominated by the labor-intensive textile sector. The results from the B-index show an increased value on exporting goods that indicates that the offshore regime has involved technology spillovers. In our attempt to determine if the offshore regime still is an important economic instrument, the reached stage in the offshore cycle can tell if the implementation of the offshore regime still is successful. It is tempting to claim that Tunisia has reached the second stage in the offshore cycle. It is the stage where the economy is focusing on the more capital-intensive sector, such as electronics. What supports the belief that Tunisia has reached the second stage in the offshore cycle is that the electronic and leather and footwear sectors are the fastest growing sectors and that there is an increase in the value per unit for export of these products. The increased value of export for these goods indicates that there has been a technology transfer and following spillovers thanks to the offshore trade strategy. Other factors although, such as new markets and deeper integration with the EU seem to play an important role for the decision makers and moreover for the development of the Tunisian economy. One even more important issue for Tunisia than the economic incentives for foreign investors is to keep the market shares e.g. at the European market. Another determining factor is to find new markets where the US is potential. The abolishment of the MFA will probably have important consequences for the Tunisian export of textile to the EU. In this case, the offshore will not be a sufficient instrument in order to meet the increased competition. Instead and in favor for Tunisia, the proximity to the European market and the established trade relations with the EU may be guidance towards the way of prosperity.

With an optimistic perspective one can believe that the offshore has contributed to an actual and long run change in trade and production patterns and that the country now is ready to meet the coming challenges.

Tunisia was ranked as the 32nd most competitive country in the world in 2004 compared with 33rd place in 2003. In the economic budget of 2004 it is also stated that partly thanks to Tunisia's good reputation it has been able to attract foreign investments and also the stable macro- economic climate has facilitated the pursuit of foreign investors. Despite these progresses, and when looking at the advancement by their competitors one sees that there are things to be done.

The government of Tunisia is within the reform "La Tunisie de Demain", implementing programs in order to increase the attractiveness and to enhance the business climate. The effects of the offshore regime have been significant for the development of the economy but in recent years, the role of the regime seems to be phasing out and Tunisia has reached a level where it does not have the same importance as when implemented. The government has also taken measures with the aim to improve the infrastructure and facilitate the administration. To be able to take advantage of the opportunities of the globalisation that the trade liberalisation may bring, Tunisia has to continue with the specialization into production of high value products, or else they might be lagging behind.

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Appendix

Table 4 FDI inflow in Million TD 1991-2004

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Energy	129,6	461,4	615,8	494,4	245,4	166,9	271,3	201,8	194,8	323,4	327,3	427,5	315,9	274,1
Tourisme	11	13	7	17	28,1	48,4	23	24,6	37,2	41,5	97,2	21,9	18,8	22,1
Services	NA	3	7	NA	NA	3,7	7,3	3,3	4,1	4,4	6,2	446,8	123,8	177,9
Manufacturing	13,5	15,5	14,9	14	24,2	49,5	85,7	523,3	197,9	688,3	251	255,4	282,6	311,8
Agriculture	NA	NA	NA	NA	NA	2	3,3	1,4	3,2	4	8,9	10,5	4	10
Other	5,2	23,2	17,2	17,4	7,4	2	12,3	5,5	NA	6,6	9,4	5,2	6,8	0
Portfolio	27	49,3	27,4	29	37,3	31,2	69,4	89,2	51	69,5	18,3	23,8	36,9	62,6
Total	186,3	565,4	689,3	571,8	342,4	303,7	472,3	849,1	488,2	1137,7	718,3	1191,1	788,8	858,5

Source: INS Tunisia (2005)

Table 5: FDI inflow by sector in Million TD

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Energy	129,6	461,4	615,8	494,4	245,4	166,9	271,3	201,8	194,8	323,4	327,3	427,5	315,9	274,1
Tourisme	11	13	7	17	28,1	48,4	23	24,6	37,2	41,5	97,2	21,9	18,8	22,1
Services	NA*	3	7	NA	NA	3,7	7,3	3,3	4,1	4,4	6,2	446,8	123,8	177,9
Manufacturing	13,5	15,5	14,9	14	24,2	49,5	85,7	523,3	197,9	688,3	251	255,4	282,6	311,8
Agriculture	NA	NA	NA	NA	NA	2	3,3	1,4	3,2	4	8,9	10,5	4	10
Other	5,2	23,2	17,2	17,4	7,4	2	12,3	5,5	NA	6,6	9,4	5,2	6,8	0
Portfolio	27	49,3	27,4	29	37,3	31,2	69,4	89,2	51	69,5	18,3	23,8	36,9	62,6
Total	186,3	565,4	689,3	571,8	342,4	303,7	472,3	849,1	488,2	1137,7	718,3	1191,1	788,8	858,5

Source: INS Tunisia (2005)

* NA= non available

Table 6: Employment general and offshore regime

Year	1966	1975	1984	1989	1994	1997	1999	2000	2001	2002	2003	2004
Active workforce	1093700	1621800	2137200	2360600	2772400	2978300	3143900	3215700	3292700	3375700	3460500	3328600
Off-shore employment		14101	49311	77117	132355	166315	189903	204555	215299	222905	235314	243126
Off-shore/total active workforce		0,9%	2,3%	3,3%	4,8%	5,6%	6,0%	6,4%	6,5%	6,6%	6,8%	7,3%

Source: Central Bank of Tunisia 2005

Table 7: Export in Million TD

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
EUROPE	3842.8	3858.4	4516.5	4954.8	5174.5	5905.5	5889.2	6857.3	7729	7959.5	9006.9	101617.5	10581.3	11105.6	12448.5
Germany	466.2	561.1	605.3	652.7	730.2	813.5	839.6	893.4	1006.1	974.5	1001.8	1114.0	1109.8	1105.6	1105.2
Belgium	216.0	213.5	246.2	275.0	305.0	337.4	385.0	375.6	392.5	401.6	406.1	464.2	415.1	405.9	358.9
France	822.3	862.7	966.0	1102.7	1262.4	1451.6	1380.0	1564.4	1760.1	1835.0	2145.7	2751.3	3025.0	3365.5	3986.7
Italy	653.4	674.4	608.9	620.4	907.6	988.3	1113.1	1312.3	1392.7	1575.1	1842.2	2207.0	2081.1	2281.4	3051.4
the Netherlands	78.6	92.0	91.3	116.8	144.5	147.5	167.0	173.4	216.1	211.1	280.7	233.9	211.7	239.1	265.7
Poland	.1	3.2	12.3	21.8	14.7	16.0	15.1	18.6	16.5	19.3	14.7	17.4	17.2	16.2	15.9
GRB	50.6	43.9	64.2	47.6	70.5	77.1	103.6	178.8	137.0	121.4	175.7	226.3	241.6	337.3	346.6
Sweden	5.5	7.2	7.7	6.4	8.1	10.2	9.3	8.5	15.6	22.4	28.3	18.9	26.1	29.4	34.3
Switzerland	11.0	15.5	10.7	20.3	50.6	45.5	26.5	56.7	75.3	25.3	70.8	50.8	123.8	218.2	49.0
Spain	81.1	125.4	97.8	95.6	222.2	209.3	194.1	221.2	226.5	389.3	434.4	460.0	461.5	481.8	729.4

Source: INS Tunisia (2005)

Table 8: Tunisian trading partners

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Africa	234.5	230.7	315.4	274.5	382.0	510.2	501.5	521.5	438.6	514.6	773.5	844.9	767.8	829.7	856.6
US	251.9	229.7	283.1	359.6	437.7	377.8	312.2	377.7	328.0	433.7	540.8	551.6	427.2	345.4	445.7
China	28.9	31.3	43.3	49.3	50.2	51.6	59.4	74.0	87.2	103.4	138.2	187.8	198.1	238.7	362.5
Japan	87.7	111.8	130.3	143.7	155.6	133.1	159.3	215.0	197.5	251.1	239.3	245.6	225.1	255.9	317.6
Europe	3842.8	3858.4	4516.5	4954.8	5174.5	5905.5	5889.2	6857.3	7729.0	7959.5	9006.9	10617.5	10581.3	11105.6	12448.5

Source: INS Tunisia (2005)

Table 9: Key Economic Indicators

	1983	1993	2002	2003
Us \$ billions				
GDP	8,4	14,6	21	25
Tot Exp	1,86	3,746	6,857	8,027
Tot Imp	3,103	3,149	9,504	10,896
Consumer prices	-	4,1	2,7	2,7

Source: World Bank

Table 10: Textile export by industry

Export Textile Million TD	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Manufacturing	1222,5	1580,1	1831,9	1954,8	2125,6	2330,7	2309,1	2424,8	3001,1	2967,4	3050,2	3221,2
Material	92,8	107,3	114,1	113,9	100,3	105,1	110	161,2	222,4	257,7	271,8	317,7
Carpets	9,5	8	6,1	4	3,5	3	2,7	2,8	2,9	1,8	2	2,1
Shoes	117,5	156,1	185,4	212,9	255	276	314,7	360,1	466,8	481,8	525,5	528,1
Leather	22,8	24,4	36,5	31,6	36,6	37,1	39,8	48,7	67	65,4	67,8	69,4

Source: INS Tunisia 2005

Table 11: Export Quantity and Value: Manufacturing goods

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
France											
Textile											
Year											
Quantity	25196,7	27901,3	30001,2	30714,8	38526,2	44607,9	46028,4	51874,7	59401,3	55758,9	50701,5
Value	276161,93	314582,83	382197,06	368041,56	399562,84	498169,66	503256,22	478585,49	552656,03	534183,12	591449,47
Q/V	0,09	0,09	0,08	0,08	0,10	0,09	0,09	0,11	0,11	0,10	0,09
V/Q	10,960242	11,274845	12,739392	11,982548	10,371198	11,167745	10,933602	9,2257977	9,3037699	9,5802307	11,665325
Italy											
Textile											
Quantity	18926,175	22993,827	25732,991	28966,825	31946,316	33882,724	37324,525	43582,547	49449,409	49705,417	50141,099
Value	142641,91	184102,44	231554,28	279060,44	289266,52	329710,1	339518,25	326742,44	390481,9	433236,16	549619,88
V/Q	7,536753	8,0066027	8,9983429	9,6337946	9,0547694	9,7309207	9,0963849	7,4970936	7,8965938	8,7160753	10,961465
Q/V	0,1326831	0,1248969	0,1111316	0,1038013	0,110439	0,1027652	0,1099338	0,133385	0,1266369	0,1147305	0,0912287
France											
Leather /footwear											
Quantity	875,1	1303,7	1489,7	1756,7	1774,8	2290,1	2539,1	3125,3	2942	2272,6	2294,7
Value	15137,635	19522,994	27831,431	30598,827	26048,737	35409,705	40494,515	44432,037	48452,152	38255,47	50118,884
Q/V	0,0578096	0,0667777	0,0535258	0,0574107	0,0681338	0,0646744	0,0627023	0,0703389	0,0607197	0,0594059	0,0457851
V/Q	17,298177	14,975066	18,682574	17,418357	14,676999	15,462078	15,948373	14,216887	16,46912	16,833349	21,841149
Italy											
Leather/footwear											
Quantity			92945,131	107469,58	110714,3	113068,36	115244,95	116459,67	118130,71	93738,061	143284,09
Value			5238,4	5923,9	6554,5	6957,7	7233,3	8049	7880	6263,9	6437,4
V/Q			17,743038	18,141694	16,891342	16,250824	15,932556	14,468837	14,991207	14,964808	22,258068
Q/V			7149,6255	8266,8908	8516,4848	8697,5662	8864,9965	8958,4363	9086,978	7210,6201	11021,853
France											
Electronics											

Quantity	7496,9	7717,9	8045,8	7799,3	9775,4	12539,2	14739,7	21307,1	21635,7	20128,9	22207,8
Value	115226,69	135505,71	145501,83	126365,98	149941,67	183850,19	212485,01	252752,83	263871,49	276259,62	391955,69
Q/V	0,0650622	0,0569563	0,0552969	0,0617199	0,0651947	0,0682034	0,0693682	0,0843001	0,0819933	0,0728623	0,0566659
V/Q	15,369912	17,557329	18,084197	16,202221	15,338673	14,662035	14,41583	11,862376	12,196115	13,724526	17,64946
Italy											
Electronics											
Quantity	4262,242	4709,305	5292,205	4910,818	8665,454	8909,477	10114,145	11785,518	11905,064	11783,689	14565,353
Value	31543,877	32629,908	39290,225	47113,667	73513,271	72025,97	72558,755	80009,842	89369,173	93808,627	132155,03
Q/V	0,1351211	0,1443248	0,1346952	0,1042334	0,117876	0,1236981	0,1393925	0,1473009	0,1332122	0,1256141	0,1102141
V/Q	7,400771	6,928816	7,4241691	9,5938532	8,4834875	8,0841973	7,173988	6,7888269	7,50682	7,9608879	9,0732459

Source: OECD 2005, ITS [SITC Rev.3]: (1993-2003)