

Tunisia: macroeconomic and trade profile

Opportunities and challenges towards implementation of AfCFTA

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Key messages

- The Tunisian economy contracted by 8.6% in 2020 amid the Covid-19. Modest growth is expected at 3% in 2021 and 3.3% in 2022, but there are risks around public debt sustainability, financial stability and fragility of political contexts.
- Tunisia has been a net importer with total trade (i.e., exports + imports) of goods and services, with total trade reaching 104% of GDP on average per year from 2011 to 2019. Tunisia's top exports are comprised of machinery and equipment, but there is room to support further exporting of dates, plastic products, t-shirts, trousers and footwear in view of increasing world demand of and/or Tunisian efficiency on these products.
- As of 2019, the share of intra-African goods trade to Tunisia's total goods trade was at 10.3%. Tunisia's goods trade balance with Africa shifted to deficit in 2018 and 2019 due to the increase in prices of imported petroleum gas and oil. Trading costs with most African countries are higher than for countries outside the continent (e.g., France, Italy, Germany).
- Since 2016, inflows of foreign direct investment (FDI) to industry have outpaced those in the energy sector. Between 2016 and 2017, average rate of return on inward FDI in Tunisia (2.6%) was below the average in the Middle East and North Africa (MENA) (7.4%). Private sector development is being hampered by the lack of competition, complex regulations, skills mismatch and low women participation.
- The African Continental Free Trade Area (AfCFTA) would likely generate higher intra-African export growth for Tunisia than for other African countries, yet there is little information on Tunisia's implementation the AfCFTA. Tunisia may benefit from crafting a national strategy and undertaking a gap analysis on potential conflict between AfCFTA commitments and domestic laws and regulations.



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About this publication

This paper aims to inform relevant stakeholders, including the private sector and non-AfCFTA experts, on Tunisia's current economic situation and implementation of AfCFTA. The paper is structured as follows. Section 1 discusses the recent socioeconomic development in Tunisia, followed by the country's trade landscape and business environment (Section 2). Section 3 presents Tunisia's intra-African trade performance and status of AfCFTA implementation. The final section summarises the paper's analysis through a SWOT (strengths, weaknesses, opportunities and threats) presentation.

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Disclaimer: The content of this publication has been produced rapidly to provide early ideas and analysis on a given theme. It has been cross-read and edited but the usual rigorous processes have not necessarily been applied.

About the author

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1 Recent socioeconomic developments

A decade after the Tunisian revolution, the country continues to be challenged by a fragile political environment and is yet to reap the economic benefits of efforts towards democratic transition. The Tunisian economy grew by 2% on average per year from 2012 to 2019, lower than the 4% average annual growth in the decade before the 2011 revolution¹ (IMF, 2021b). The Tunisian economy has been dominated by the services sector, representing about 63% of gross domestic product (GDP) on average from 2011 to 2019, followed by manufacturing (16.3%), agriculture (10.2%), mining and utilities (5.9%) and construction (4.6%).² The share of the mining and utilities sector to GDP declined to 6% after the revolution, from 10% previously.³ Unemployment has been persistently high in the past decade at 16%, with disproportionate impact on women (23%) and youth (37%) (ILO, 2021), contributing to continued social tensions.

In 2020, the Covid-19 pandemic hurt Tunisia's already fragile economic and socio-political context. GDP contracted by 8.6% (IMF, 2021a), as the pandemic negatively affected the country's tourism, transport, and export-oriented automotive cable and textile industry (IMF, 2021b). While the share of population living under extreme poverty at less than \$1.9 a day remained below 1% (Table 1), the share of 'vulnerable' population living below \$5.5 a day increased from 16.7% to 20.1% or about 2.4 million people in 2020 (World Bank, 2021). In response, the government deployed fiscal measures worth 3.5% of GDP as of September 2021, lower than the packages in low-income countries (4%), emerging markets (5%) and advanced economies (23%) (IMF, 2021c). The fall in public revenues combined with increased public expenditures amid Covid-19 widened Tunisia's public deficit, pushing public debt to 89.7% of GDP in 2020 (IMF, 2021a).

The Central Bank of Tunisia (CBT, 2021) forecasts a rebound of 3.9% growth in 2021, at the back of recovery across sectors except agriculture which suffered from adverse climate conditions. The International Monetary Fund (IMF) (IMF, 2021b) projects a more modest growth of 3% growth in 2021 (Table 2). Latest IMF (2021b) and World Bank (2020) reports highlight significant uncertainty and downside risks to Tunisia's growth outlook, depending on the evolution of Covid-19, speed of vaccination programme, and the effectiveness of fiscal measures at a time of limited fiscal space. Fitch Ratings (2021) also highlight political risks that could complicate efforts to address fiscal pressures. Without implementing reforms addressing Tunisia's structural weaknesses, including high financing needs, reliance on external funding and low private sector participation and competition, Tunisia will likely remain in vulnerable settings in the coming years (IMF, 2021b).

¹ Author's computations based on data from IMF (2021a).

² Author's computations based on data from UNDESA (2021).

³

Table 1 Tunisia country facts and social indicators

Capital: Tunis			
Geographical size: 164,150 km ² , North Africa			
Languages: Arabic, French			
Religion: Islam			
Currency; Tunisian Dinar (TD); US\$1 = TD2.8 (period average, 2020)			
	2000	2010	2020/latest
Population (million)	9.7	10.6	11.8
Dependency ratio (%) ¹	46.4	33.7	36.3
Life expectancy (years)	73.2	75.0	76.9 ²
Mean years of schooling	4.9	6.7	7.2 ³
GNI per capita (constant 2017 PPP\$)	7,019	9,631	10,297 ²
Poverty rate (% of population living on less than \$1.9 a day, 2011 PPP)	6	2	Less than 1
Unemployment rate (%)	14.9	13.1	16.7
Gender inequality index ⁴	0.412	0.286	0.296 ²
Human development index ⁵	0.651	0.716	0.740 ²

Notes: 1 dependency ratio of the young (0–14 years old) to the working-age (15–64 years old) population; 2 as of 2019; 3 as of 2019 or latest; 4 higher score = higher gender inequality; 5 higher score = better human development; GNI = gross national income; PPP = purchasing power parity.

Sources: BBC (2020); WDI (2021); World Bank (2021); UNDP (2021).

Table 2 Selected macroeconomic and financial sector performance and forecast

	2019	2020	2021f	2022f	2023f
Real GDP (% growth)	1.0	-8.6	3.0	3.3	2.5
Consumer prices (period average, % growth)	6.7	5.6	5.7	6.5	5.5
Total investment (% of GDP)	17.8	10.8	13.1	16.0	16.9
Government revenue and grants, (% of GDP)	27.7	27.6	28.1	28.0	28.4
Government expenditure, (% of GDP)	31.6	37.4	36.4	35.7	35.5
Overall fiscal balance (incl. grants) (% of GDP)	-3.9	-9.8	-8.3	-7.6	-7.2
Primary fiscal balance (incl. grants) (% of GDP)	-1.1	-6.4	-5.0	-4.0	-3.1
Public debt including guarantees (% of GDP)	74.2	89.7	90.2	92.7	95.2
Credit to non-government sector (% growth)	1.5	4.9e	4.9	5.5	5.7
Current account balance (% of GDP)	-8.4	-6.8	-7.3	-8.4	-8.0
Remittance inflows ¹ (% of GDP)	5.2	5.7f	5.4	5.2	5.2
Gross international reserves (months of prospective imports)	4.3	4.1f	3.7	3.2	2.8

Notes: 'f' indicates forecast; 'e' indicates estimated.

Sources: data based on IMF (2021a) data, except for credit to private sector and reserves (based on data from IMF, 2021b); remittance inflows are authors' calculations based on data in IMF (2021a; 2021b).

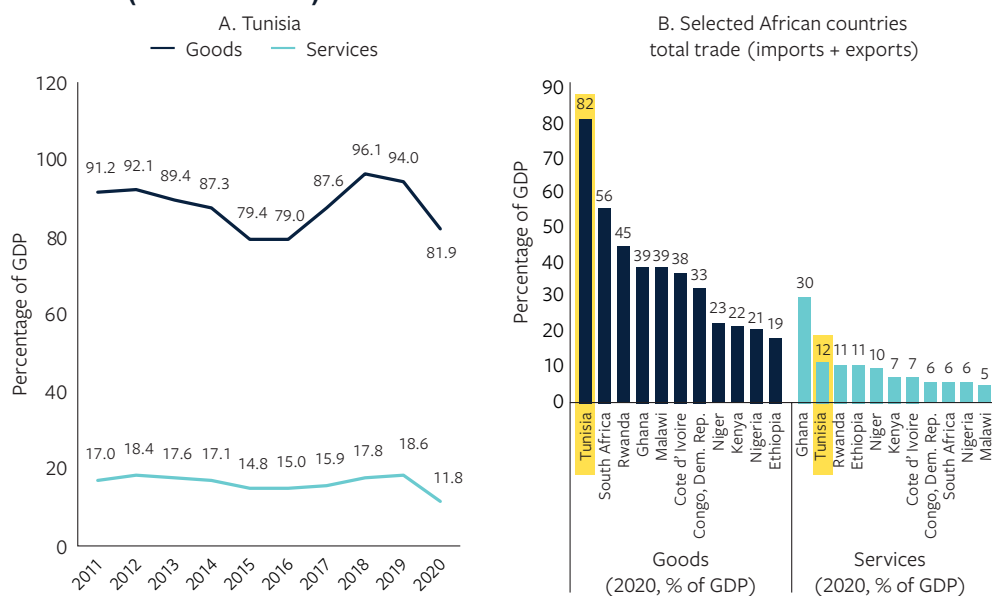
2 Trade landscape and business environment

2.1 Trade landscape

Trade has played an important role in Tunisia’s economy. On average from 2011 to 2019, total trade (i.e., exports + imports) of goods and services was equivalent to 104% of GDP (Figure 1). Tunisia has been a net importer of goods and services in the past decade, reaching \$24.6 billion worth of imports and \$19.1 billion worth of exports in 2019.³ As both exports and imports declined by the same magnitude (15%) during the pandemic, the trade in goods and services deficit narrowed from \$5.5 billion (14.2% of GDP) to \$4.6 billion (11.8% of GDP) in 2020.

Tunisia has a diverse set of exports, mostly different products under major categories of electrical machinery and equipment (26.9%), clothing (15.5%), mineral fuel and oil products (6%), and animal or vegetable oil and fats (4.9%), from 2015 to 2019.⁴ Meanwhile, Tunisia’s top imports are mineral fuel and oil products (14%), electrical machinery and equipment (13.9%), nuclear reactors, boilers, machinery and mechanical appliances and parts (9.5%), vehicles other than railway or tram (7.1%) and plastics (5.9%).⁵ France, Italy and Germany are Tunisia’s major trading partners – for both exports and imports (Figure 2).

Figure 1 Tunisia and African countries’ total trade (exports + imports) in goods and services (as % of GDP)

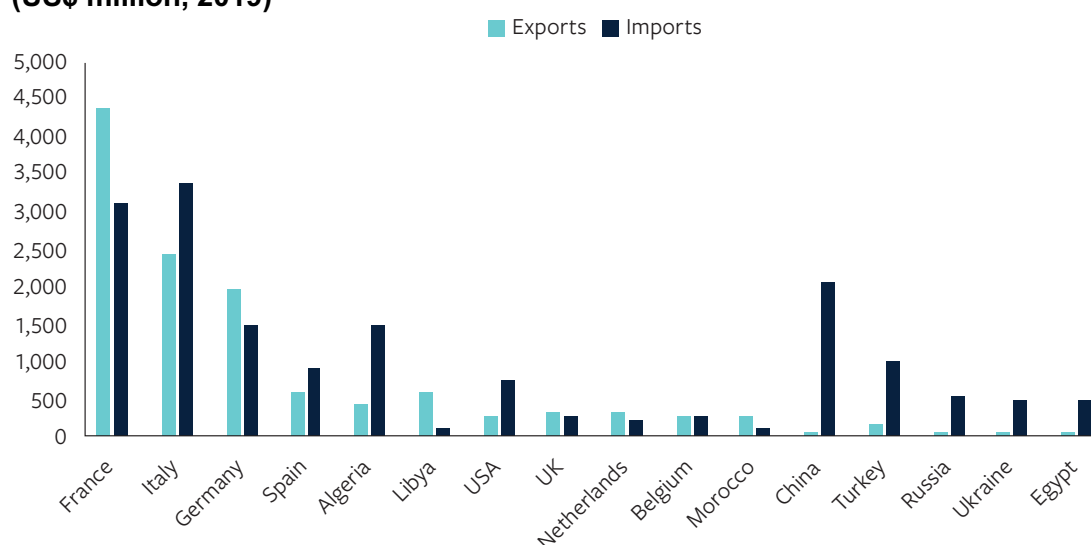


Source: author’s computations based on UNCTAD data.

³ Authors’ computations based on UNCTAD data.

⁴ Authors’ computations based on WITS data (2-digit product category).

Figure 2 Exports and imports of goods with Tunisia’s major trading partners (US\$ million, 2019)



Source: author's based on UNCTAD data.

We investigated the efficiency (in terms of revealed comparative advantage, RCA) and world demand (from all countries) of Tunisia’s top 30 exported products, amounting to almost half of Tunisia’s total exports in the last five years (2015 to 2019). Tunisian products that can be supported through export promotion or intervention to increase competitiveness are enumerated in Table 3.

Table 3 Export products for promotion and targeted intervention

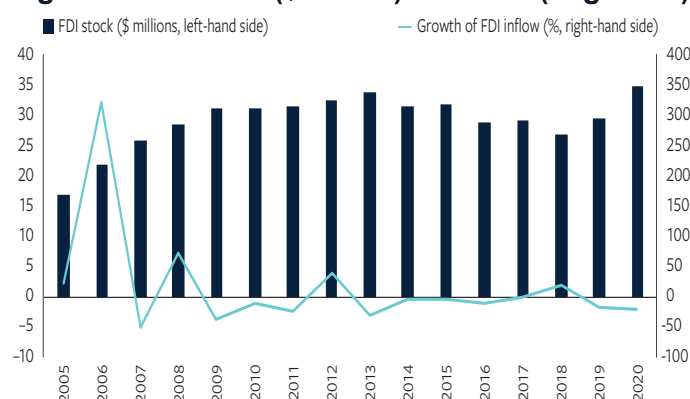
	Increasing RCA (e.g., for export promotion, facilitation)	Declining RCA (e.g., intervention to increase competitiveness)
Increasing world demand	<ul style="list-style-type: none"> • Cotton men's or boy's trousers, bib and brace overalls, breeches and shorts, not knitted or crocheted • Insulated electric conductors not fitted with connectors • Ignition wiring sets for vehicles, aircraft or ships • Parts of aeroplanes or helicopters • Electrical circuits • Dates • Plastic articles • Steering wheels, steering columns and steering boxes • Phosphoric acid, polyphosphoric acids • Machines for the reception, conversion, transmission or regeneration of voice, images or other data • Single-phase AC electric motors • Electricity meters • Parts of electrical apparatus • Felt or non-woven garments, not knitted or crocheted • Medical, surgical or dental instruments and appliances 	<ul style="list-style-type: none"> • Insulated electrical conductors fitted with connectors. • Petroleum oils and oils obtained from bituminous minerals, crude • Petroleum oils and oils from bituminous minerals, not crude, not waste oils; not light oils and preparations • T-shirts, singlets and other vests, of cotton, knitted or crocheted • Boards, panels, consoles, desks and other bases for electric control or the distribution of electricity • Footwear outer soles of rubber, plastics or composition leather, uppers of leather
Declining world demand	<ul style="list-style-type: none"> • Reception apparatus for television, not designed to incorporate a video display or screen • Diammonium phosphate (fertiliser) 	<ul style="list-style-type: none"> • Virgin olive oil and its fractions • Men's or boy's track suits and other garments of textile materials, not knitted or crocheted

Source: author's compilation based on data from World Integrated Trade Solutions (WITS).

2.2 Foreign direct investment

Foreign direct investment (FDI) inflows to Tunisia quadrupled in 2006 following the privatisation of the telecommunications industry, but have since undergone several declines (UNCTAD, 2007) (Figure 3). FDI flows declined by 18.5% to \$845 million in 2019, driven by the sharp contraction of investment towards the services sector (UNCTAD, 2020). During the pandemic, FDI inflows were estimated to decline further by 22.8% to \$652 million (Table 4). As of 2020, FDI stock reached \$35 billion (Figure 3).

Figure 3 FDI stock (\$ billion) and flow (% growth)



Source: author's computations based on UNCTAD data.

Most FDI inflows went to Tunisia's energy and industry sectors, with a gradual shift of higher inflows going to the latter in most recent years (Table 4). The limited available disaggregated data on FDI stock indicate that, as of 2018, FDI stock (excluding energy and financial sectors) went to manufacturing and services sectors (FIPA, 2019).

Table 4 FDI inflows by recipient sector

Recipient sector	2015		2016		2017		2018		2019*		2020*	
	\$ mn	% share	\$ mn	% share	\$ mn	% share	\$ mn	% share	\$ mn	% share	\$ mn	% share
Energy	495	49.3	371	41.9	335	38.0	344	33.2	310	36.7	221	33.8
Industry	288	28.8	373	42.2	403	45.7	427	41.2	426	50.4	365	56.0
Services	215	21.4	131	14.8	133	15.1	237	22.8	103	12.2	60	9.2
Agriculture	5	0.5	10	1.2	11	1.2	29	2.8	6	0.7	6	1.0
Total	1,003		885		881		1,036		845		652	

Source: author's computations based on FDI inflow data from FIPA (2019; 2021) and exchange rate data from WDI (2021). *Provisional FIPA data.

As of 2020, the top five sources of non-energy FDI inflows (76% of total) are France, Italy, Luxembourg, Germany and the United Kingdom (UK) (FIPA, 2020). The top five sources of non-energy FDI stock (64% of total) are UAE, France, Qatar, Italy and Germany (ibid.). Between 2016 and 2017, Tunisia's rate of return on inward FDI⁵ averaged at 2.6%, below the average in Middle East and North Africa (MENA) countries at 7.4%, and in OECD and G20 countries at 6.5% (OECD, 2020).

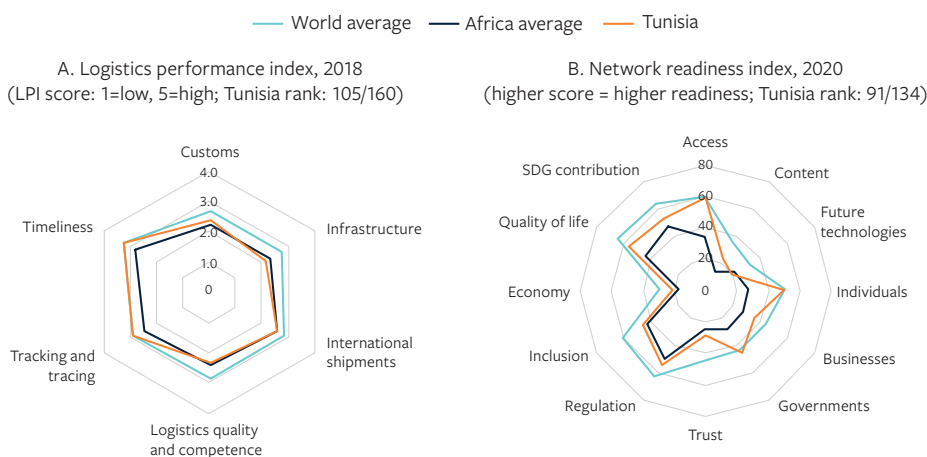
⁵ The OECD (2020) calculated rates of return on inward FDI as a ratio between FDI income on equity and total inward FDI stock. The average rate of returns on inward FDI in MENA are based on eight countries (Algeria, Bahrain, Djibouti, Egypt, Jordan, Kuwait, Morocco and Tunisia) for 2016–2018 when 2018 is available, or 2016–2017 otherwise.

2.3 Business environment

Tunisia's business environment features several strengths but also persistent challenges. In terms of digital readiness, Tunisia is on par with world average performance in access and usage of technology by individuals and the government (Figure 4.B), as reflected partly by the higher share of population using the internet (67%), relative to average values for the world (57%) sub-Saharan Africa (20%) and middle-income countries (53%). Tunisia also ranked higher than most African neighbours in terms of innovation ecosystem (ranked 71st/134), driven by the country's strengths in terms of higher levels of public spending on education, tertiary enrolment rates, and creative and sophisticated exports (WIPO, 2021). Tunisia also provides a legal framework to improve the start-up ecosystem, facilitating processes for entrepreneurs to launch, run and liquidate businesses (Wood, 2019).

However, Tunisia performs poorly, relative to African counterparts, on average in terms of trade logistics infrastructure, and international shipments and logistics quality and competence (Figure 4A). This resonates with the European Bank for Reconstruction and Development (EBRD) report highlighting how Tunisian port infrastructure has not been able to modernise to keep up with increased freight traffic and new trends in maritime transport in the last two decades, creating a bottleneck for local businesses' participation in global value chains (Morsy et al., 2018).

Figure 4 Trade logistics and digital readiness



Sources: Figure 4A data based on World Bank database; Figure 4B based on NRI data in networkreadiness.org by Portulans Institute. Aggregate scores (world and African countries) are based on simple average.

Key obstacles in in Tunisia's business and investment environment are highlighted by EBRD (Morsy et al., 2018) and OECD (2018):

- excessive regulations on product markets and complex administrative procedures, which can encourage corruption, unpredictable taxation, increasing problems with customs and shipping of goods
- limited domestic competition, emerging from domination of state-owned enterprises, pervasive price controls and FDI restrictions (among others)
- low participation of women in the labour force
- skills mismatch due to shortcomings in the quality of public education, rigidity of entry routes to vocational training and from vocational training to employment, sticky wages, informality, discrimination and lack of competencies among university graduates

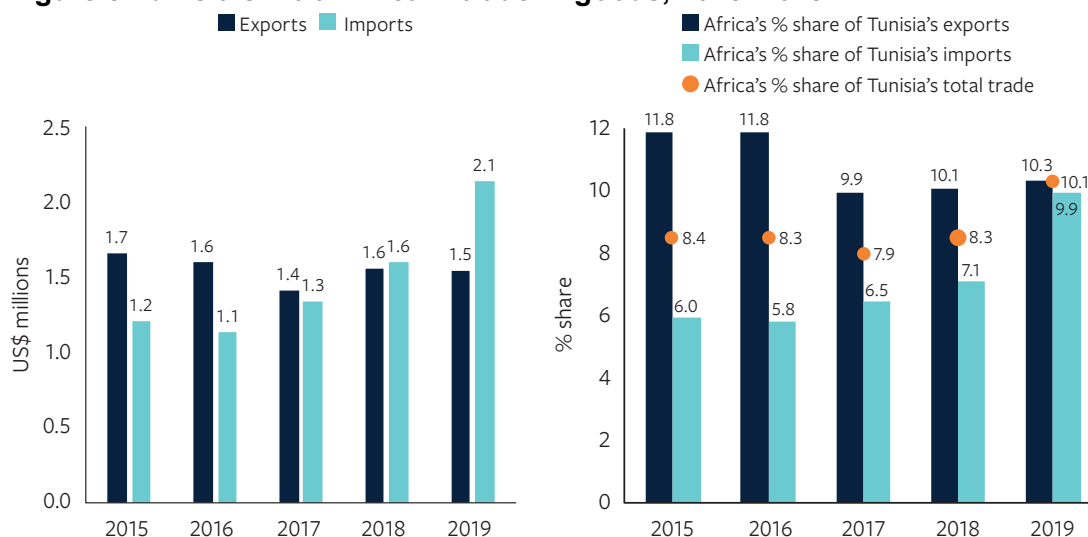
- a financial system dominated by public banks, with increasing non-performing loans, that does not favour start-ups and growing companies (e.g., lending-rate ceilings)
- lack of coherent policy to integrate Tunisia into the global economy (e.g., logistics, liberalisation).

3 Intra-African trade performance and AfCFTA

3.1 Background: Tunisia’s goods trade with Africa

Tunisia had a goods trade surplus with African countries from 2015 to 2017, but then become a net importer of goods from the continent in the following two years.⁶ As of 2019, the value of goods imports and exports reached \$2.1 billion and \$1.5 billion, respectively. The recent increase of imports from the continent was driven by the growth of imported petroleum gas mostly sourced from Algeria.⁷ Intra-African goods trade (imports + exports) comprised 10.1% of Tunisia’s total trade as of 2019 (Figure 5).

Figure 5 Tunisia’s intra-African* trade in goods, 2015–2019



Note: for consistency, 'intra-African' in this figure refers to Tunisia's trading with 29 African countries with complete goods exports and imports data from 2015 to 2019.
Source: author's computations based on data from WITS.

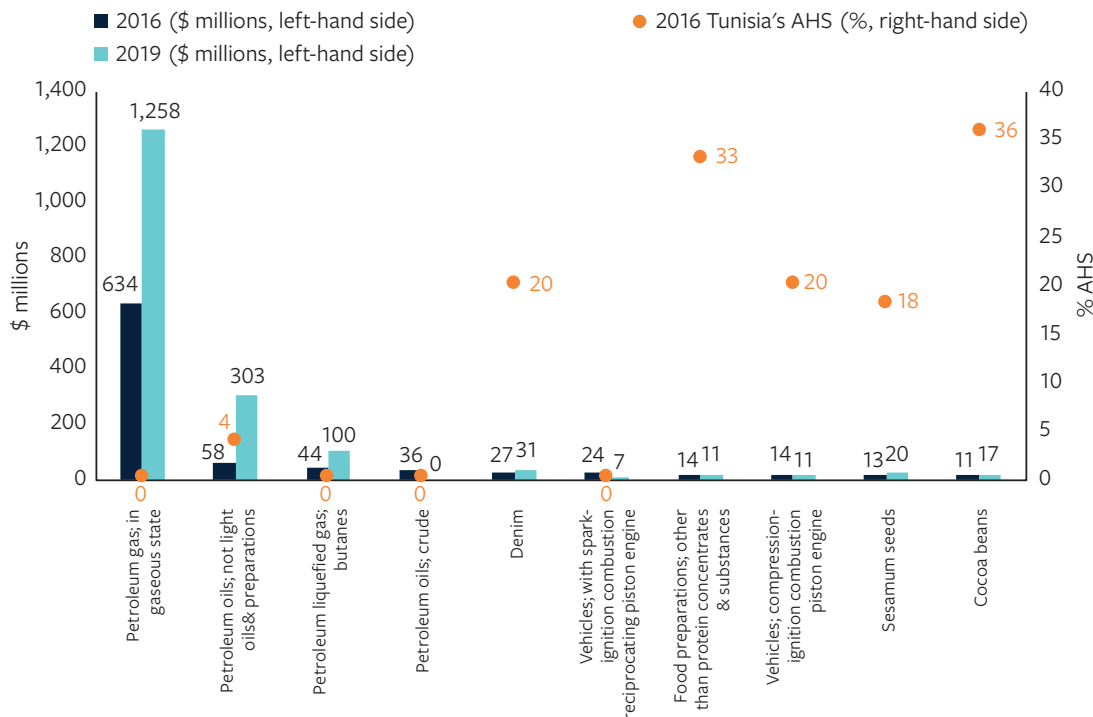
⁶ For consistency, 'intra-African' in this figure refers to Tunisia's trading with 29 African countries with complete goods exports and imports data from 2015 to 2019.

⁷ Authors' computations based on WITS data (4-digit product categories). Imported petroleum gas from Algeria increased from \$822 million to \$1.3 billion in 2019.

Tunisia has diverse export products to African countries. From 2015 to 2019, top exports are dates (4%), sanitary towels (3.8%), Portland cement (2.4%), parts of boring or sinking machinery (2%), and iron or steel structures and parts (1.9%). Three-quarters of Tunisia's exports to the continent went to Algeria, Libya and Morocco. About 60% of Tunisia's imports from Africa were comprised of petroleum gas – almost entirely sourced from Algeria.⁸ Other top imports were petroleum oil, denim and food preparations.

Latest tariff data as of 2016 indicates that Tunisia has been trading under most-favoured nation (MFN) rates and extends no preferential rates for African countries. This makes Tunisia's MFN also its applied MFN rates (AHS⁹). The trade-weighted AHS on its top imports from Africa ranged from zero for petroleum gas to 36% for cocoa beans (Figure 6). Preferential tariffs may be reflected in the future, upon Tunisia's trading under the Common Market for Eastern and Southern Africa (COMESA) Free Trade Area (FTA)¹⁰ and AfCFTA. As part of the AfCFTA, tariffs will be progressively liberalised in stages, except for 'sensitive' and 'exclusion list' products. Tariffs will be liberalised (to zero) for 90% of tariff lines over ten years for least developed countries (LDCs) and five years for non-LDCs (AfCFTA Secretariat, 2021). Sensitive products shall not exceed 7% of total tariff lines, while the exclusion list shall not exceed 3% of total tariff lines with intra-Africa import value limit of not more than 10% (ibid.).

Figure 6 Tunisia's effectively applied tariff rates (AHS)* on top imported products from Africa



Source: author based on data from WITS.

⁸ Authors' computations based on WITS data (6-digit product categories).

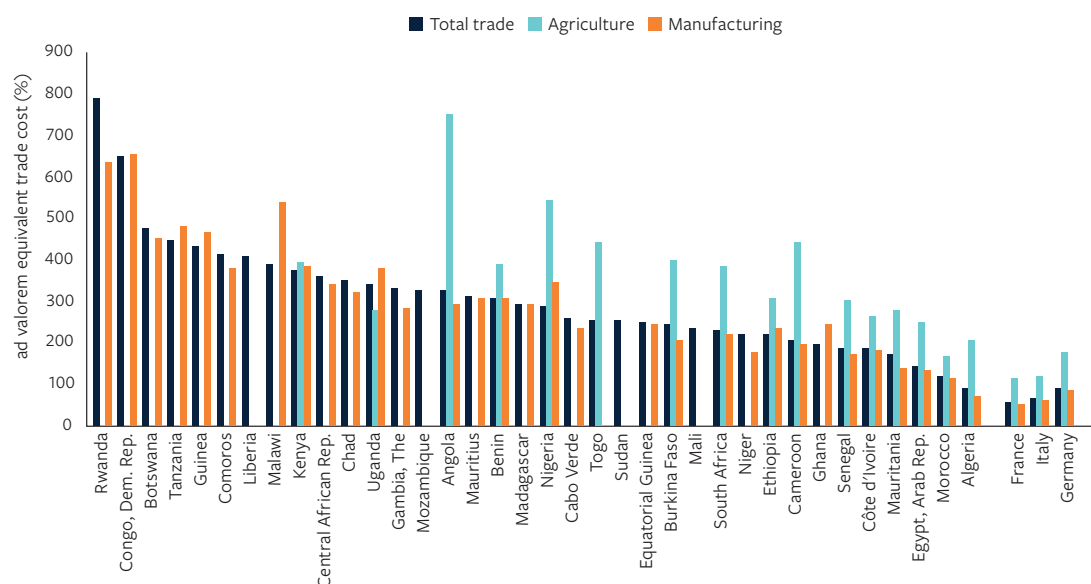
⁹ AHS is defined by the WITS database as the lowest existing preferential tariff rates or applied MFN tariffs.

¹⁰ Tunisia joined COMESA in 2018, and has been eligible to trade under its FTA with the other 15 members from March 2021 (Gakunga, 2021a).

Non-tariff measures (NTMs) such as sanitary and phytosanitary, technical barriers, pre-shipment inspection, and price and quality control, – ranging in number from 60 to 768 by Niger and Mauritius, respectively¹¹ – also affect Tunisia’s imports from Africa. Tunisia itself has 392 NTMs in place.¹² However, the number of NTMs does not indicate the magnitude of restrictiveness on trade. Figure 7 instead shows ad valorem equivalent¹² trade costs that incorporate not only transport costs and tariffs but also associated costs for differences in languages, currencies and cumbersome import or export procedures.¹³

Based on this measure, trade between Tunisia and Rwanda, for example, involves additional costs amounting to about 790% of the value of the goods, compared to when these two countries trade goods within their borders. In other words, trading with Rwanda is about eight times more expensive than trading within Rwanda’s borders (and vice versa).¹⁴ Figure 7 also suggests that, except for a few North African countries, Tunisia’s bilateral trading costs are higher in most African countries than with those outside the continent (e.g., France, Italy and Germany) especially on non-agricultural products.

Figure 7 Bilateral ad valorem trade costs between Tunisia and respective partners (% , average 2013–2017)



Note: some countries do not have disaggregated information per sector.
Source: World Bank database.

¹¹ Authors computations based on TRAINS database accessed September 2021.

¹² As a proportion of the estimated value of the goods.

¹³ It should be noted that the measure is an average for all traded goods, some of which may not be traded (or very little) in practice due to prohibitively high trade costs. This measure, developed by ESCAP–World Bank (2017), includes all costs involved in trading goods internationally with another partner (i.e. bilaterally) relative to those involved in trading goods domestically.

¹⁴ See Arvis et al. (2012) for a full discussion of methodology.

3.2 Status of Tunisia's AfCFTA implementation

The Tunisian government signed the AfCFTA on 21 March 2018 and ratified the agreement on 22 July 2020 (RTAA, 2021). By the end of November 2020, Tunisia deposited its instrument of ratification to the African Union (AU) Commission (UNECA, 2020; RTAA, 2021). As of 4 October 2021, 41 countries have complied with their domestic requirements for ratification of the AfCFTA, 38 of which have deposited their instruments of ratification to the AU Commission (Tralac, 2021). As of March 2021, the AfCFTA secured 90% of tariff offers and 34% of services offers (AU, 2021). Countries ratifying the agreement can trade with each other based on their tariff concessions and rules of origin. There have been a number of preparatory and awareness activities conducted at the national and regional level, but as of January 2022, there is little information on Tunisia's implementation of its commitment under the AfCFTA.

A World Bank (2020) simulation suggests that the share of continental trade will increase under the AfCFTA scenario by 2035 compared to the baseline (Table 5). The simulation suggests that Tunisia, Cameroon, Egypt, Ghana and Morocco are expected to benefit from the fastest growth of intra-AfCFTA exports, with exports doubling or tripling with respect to the baseline.

Table 5 Exports and imports under baseline and AfCFTA scenarios, selected African countries

	Share of intra-AfCFTA exports in total exports (%)			Share of intra-AfCFTA imports in total imports (%)		
	Baseline		AfCFTA	Baseline		AfCFTA
	2020	2035	2035	2020	2035	2035
Total (Africa)	12	15	21	12	18	25
Cameroon	11	14	19	14	20	35
Egypt	8	10	22	3	6	14
Ghana	9	10	16	17	28	40
Morocco	7	9	26	6	9	12
Tunisia	11	13	19	7	11	16

Source: World Bank (2020).

At the regional level, COMESA (of which Tunisia is a member) established a partnership framework with the AfCFTA Secretariat in April 2021 to support AfCFTA implementation (Gakunga, 2021b). COMESA has called for cooperation on piloting a pan-African payment and clearing system, and institutional partnerships covering development banks, insurance agencies, competition commissions and business councils (ibid.). The COMESA, East African Community and SADC have ongoing negotiations to realise a Tripartite FTA (COMESA, 2020).

At the national level, Tunisia has taken steps to prepare its economy for the AfCFTA. This includes the national-level forum held in July 2019 to increase AfCFTA awareness among representatives from government agencies and Parliament, the private sector and civil society (UNECA, 2019). The forum identified the following Tunisian sectors as likely to benefit from the AfCFTA: pharmaceutical, agri-food and building materials, as well as services sectors (especially engineering and medical services).

The Tunisian Ministry of Trade and Export Development, Export Promotion Centre and GIZ have been collaborating in several projects to boost Tunisia's bilateral and regional trade, including:

- promotion of job-creating export activities to new sub-Saharan African markets, 2017–2023
- supporting AfCFTA at the continental, regional and country-member levels (including Tunisia), 2020—2023
- launch of a centralised information website (www.africatradeagreements.tn/en) on trade agreements with Africa for all Tunisian stakeholders in October 2020.

The next phases of AfCFTA negotiations will include investment, competition, intellectual property and e-commerce. Compared to other African countries lacking legislation in these areas (Dawar and Lipimile, 2020), Tunisia has put in place a new Competition Law in 2015, and an Investment Law in 2016. These laws are assessed by the EBRD to be not at par with international best practices (Morsy et al., 2018). The WTO (2016) also states that the competition law still excludes numerous goods and services from the free pricing regime because they are considered to be ‘essential’ goods subsidised by the state. These goods include bread and other food products, certain cars, and goods and services furnished under state monopolies (water, electricity, gas, postal services, port and airport services) (ibid.).

Thus, to enable smooth implementation of the AfCFTA, Tunisia would benefit from crafting a national strategy for AfCFTA, as well as undertaking a gap analysis comparing commitments to AfCFTA provisions and domestic legislation and regulations.

4 Opportunities and challenges for Tunisia’s trade and investment

Based on the analysis of Tunisia’s macroeconomic performance, trade and investment landscape and AfCFTA implementation in previous sections, the following are SWOT considerations for Tunisia’s trade and investment prospects.

Strengths	<ul style="list-style-type: none"> • Relatively higher share of educated and digitally skilled population than many African countries. • Has diversified and sophisticated exports (e.g., electrical machinery and equipment, apparel and clothing). • Above African average performance in terms of nurturing ecosystems for innovation, start-ups and digital economy. • Has existing legislations on competition and investment which are relevant for next phase of AfCFTA negotiations.
Weaknesses	<ul style="list-style-type: none"> • Relatively poorer performance in terms of trade logistics infrastructure, quality and competence compared with African countries on average. • Excessive regulations on product markets and complex administrative procedures for the private sector.

	<ul style="list-style-type: none"> • Limited domestic competition emerging from domination of state-owned enterprises, pervasive price controls and FDI restrictions, among others. • Skills mismatch between training and the labour market. • Low participation of women in the labour force. • Lack of coherent policy to integrate Tunisia into the global economy. • Relatively lower rate of return of FDI in Tunisia compared with other countries in Middle East and North Africa.
Opportunities	<ul style="list-style-type: none"> • Proximity to Africa, Middle East and Europe • Memberships in multilateral FTAs within and outside Africa. • Expected to benefit from higher intra-African exports under the AfCFTA scenario. To start realising the benefits, Tunisia should craft a national strategy for AfCFTA and undertake a gap analysis to address potential conflict between AfCFTA commitments and domestic legislations and regulations. • The AfCFTA protocol on digital trade could constitute a major opportunity for Tunisia, given the country's increasing digital preparedness. • Intervention to boost further exports on the following Tunisian major export products with increasing world demand: electrical parts and equipment; parts of vehicles, aeroplanes and helicopters; medical instruments and appliances; men's or boys' clothing; felt or woven garments; t-shirts, singlets and other vests; footwear; petroleum oils.
Threats (risks)	<ul style="list-style-type: none"> • Subdued demand in the event of protracted or new waves of Covid-19 outbreak and/or limited access or constrained deployment of Covid-19 vaccines. • Fragile political contexts and social tensions. • Moderate risk of public debt distress and increasing non-performing loans. • Oil price shocks which would increase import bill and widen trade deficit. • Financial system vulnerabilities from dominant state-owned banks and rising non-performing loans. • Delays in AfCFTA implementation or higher preference to trade outside Africa, due to relatively higher costs of intra-African trade and/or due to domestic legislative constraints.

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