

Global Value Chains Diagnostic – Country Deep Dive

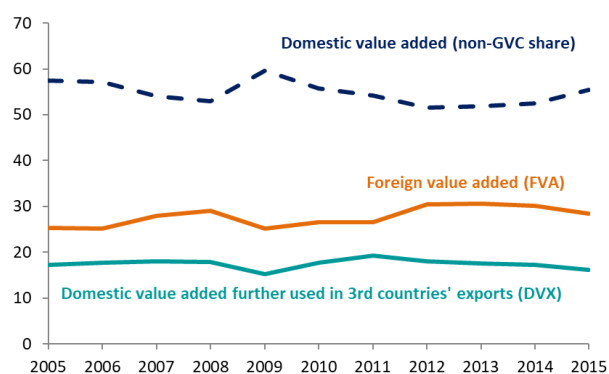
Tunisia¹

- Tunisia is highly integrated into global value chains, but trade volume has declined after 2011 and has not fully recovered to pre-2011 levels yet
- The textiles and electrical equipment industries have strong value chain linkages
- The EU (France, Italy, Germany and Spain) is the major trading and GVC partner of Tunisia
- Tunisia has succeeded to enter new value chains in the aerospace industry in the past decade

Mapping the integration in GVCs

At the global level, global value chain (GVC) integration has stagnated in recent years, whereas most trade integration had happened before the financial crisis. Tunisia followed the global trend and experienced high integration in global value chains in the 2000s, in which GVC exports tripled to around US\$ 1800 per worker. However, Tunisia's GVC integration declined in the years after 2011 and trade has not fully recovered to pre-2011 level yet. Still, Tunisia has a strong integration in GVCs with around 45 per cent of exports showing GVC linkages (Chart 1).² The economy has strong backward linkages in GVCs, indicating that exporters rely on imported inputs to produce competitive exports (around 29 per cent of exports value added in 2015). Around 16 per cent of domestic value added was sold to other countries, where it was used by foreign firms as inputs in their export production (forward linkages in GVCs).

Chart 1: Decomposition of gross exports
(as per cent of total gross exports)



Sources: OECD (2018) and authors' calculations

Overall, Tunisia is an export dependent economy, in which exports accounted for almost 40 per cent of GDP in 2015. Global value chain linkages made up around 17 per cent of GDP.

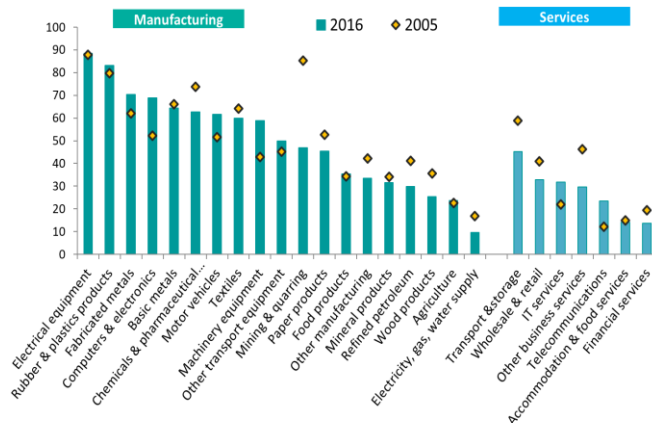
Tunisia's export driven economy has a broad base of export intensive industries, where overall production is strongly driven by foreign demand. A high export intensity can be found across the manufacturing industries, particularly in the electrical equipment industry where around 90 per cent of production was exported in 2016 (Chart 2).

¹ This note was produced by Olivia Riera from SEP/EPG and Philipp Paetzold from OCE. The analysis was supported by the [Value Chain Competitiveness Programme](#), implemented by the European Bank for Reconstruction and Development and financed by the European Union. The views expressed in this note are those of the authors only and not necessarily those of the EBRD or the EU.

² Global value chain integration is the sum of foreign value added (FVA) & domestic value added embodied in 3rd countries' exports (DVX). The residual part of exports value consists of domestic value added with no GVC linkages.

However, despite the strong and broad export linkages, few industries have increased their export intensity over the past decade. Some strong export intensive industries such as chemicals and textiles have even experienced a decline over time.

Chart 2: Export intensity by industry (as per cent of output)

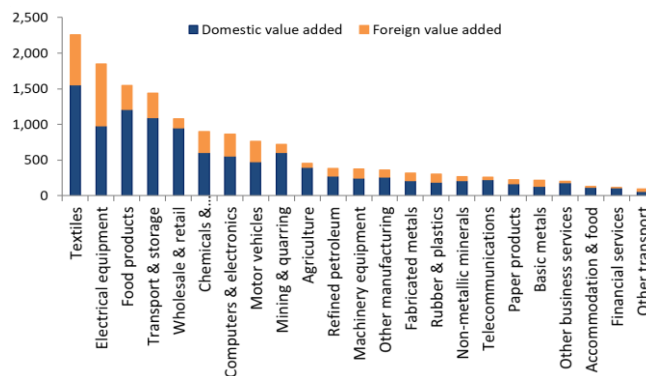


Sources: OECD (2018) and authors' calculations

Major export sectors, such as textiles and electrical equipment, also show a high content of foreign inputs in their exports (Chart 3). This indicates that it is vital for Tunisian exporters to have access to raw and intermediate inputs from foreign suppliers and partners in global value chain networks in order to produce competitive products.

Furthermore, IT and telecommunication services and the aerospace industry have seen the strongest annual growth rates in exports via global value chain linkages over the period 2005-2015. It is particularly important to highlight that both domestic value added and foreign value added in exports have increased, emphasising the complementarity relationship between domestic and foreign inputs in the production of exports.

Chart 3: Decomposition of sector exports (in million US\$, 2015)

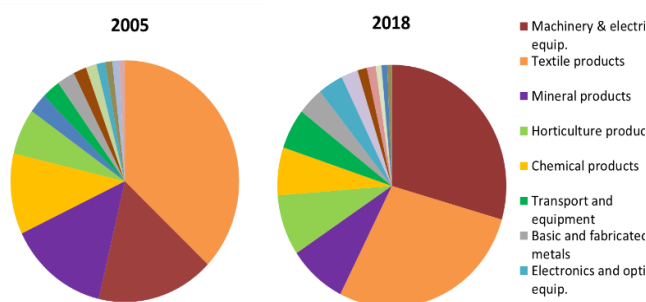


Sources: OECD (2018) and authors' calculations

Despite having a broad base of exporting industries, major export earnings still come from the electrical equipment and textiles industries and have changed little over time (Chart 4). Their shares in exports of goods have even increased over time, while other export products such as mineral and chemical products have lost relevance. Despite gaining new exports by entering value chains in the aerospace industry, overall exports value of goods exports stagnated between 2007 and 2017. The mixed performance in the overall export basket can be observed in disaggregated trade data, where crude oil was the largest export product group in 2007, but fell from around US\$ 2.1 to US\$ 0.5 in 2017. In contrast, exports of aeroplane parts rose from zero to US\$ 0.3 billion over the same time horizon.³

³ Based on six-digit Harmonised Classification product code level of goods exports.

**Chart 4: Export basket composition
(as per cent of goods exports)**



Sources: ITC (2018) and authors' calculations

The European Union is the major trading partner and has strong value chain linkages with Tunisia. The EU is both the most important destination for exports from Tunisia as well as source of inputs used in Tunisian exports. In 2015, two thirds of exported domestic value added of Tunisia went to the EU and half of foreign value added inputs in Tunisian exports were sourced from the EU. Inside the EU, France, Italy, Germany and Spain are the main trading partners, but value chain linkages with China, India and Turkey have been on the rise over the past decade.

Trade and investment policies

Tunisia's strategy of integrating into global value chains has relied on two pillars.

First, the country has undertaken a progressive trade liberalisation and is part of more than 60 trade agreements with strong trading linkages with the EU. Tariff duties have been simplified and decreased between 2006 and 2016, with the average applied tariff on manufactured goods declining from 20 to 10 per cent. Tunisia also has free trade agreements with the EU, Turkey, COMESA, the Agadir group and Pan-Arab countries, and with the entire African continent through recent ratification of the African Continental agreement.⁴

⁴ The AfCFTA has been signed by 54 countries and ratified by 28 countries so far. However, the implementation has been postponed due to Covid-19.

Second, the country has promoted an attractive regime for companies engaged (almost entirely) in exports in designated free trade zones ("offshore regime"). Export-oriented firms enjoy extensive financial incentives in the offshore regime, while industries in the onshore system produce for the domestic market. Exporters in the offshore regime, who export at least 70 per cent of output, have been granted favourable corporate tax deductions, while firms were eligible for tax exemptions and investment grants in designated regional development zones. In 2016, a new investment law was implemented targeting foreign investors by effectively reducing red tape and liberalising foreign equity rules, granting land access and promoting free capital movements.

Overall, the offshore regime has been a major driver in the growth of Tunisian exports and the share of firms operating in the offshore regime has increased from 0.6 per cent in 1996 to 4 per cent of total private sector firms in 2016. These offshore firms, of which almost half of them are foreign companies, also account for 34 per cent of employment in the private sector and 78 per cent of merchandises exports (excluding energy).

However, this onshore-offshore duality has led to distortions in the economy. Barriers to operate in both offshore and onshore market have protected local companies from competition and led to lower productivity levels in firms in the onshore regime. Firms in the offshore sector have performed better as an engine of employment and exports, but have established only limited linkages to firms in the onshore market due to excess regulatory barriers.

Obstacles and barriers

Tunisia has achieved to enter new global value chains and is the most integrated country in the South-eastern Mediterranean region. However, the country's overall exports volume has also stagnated and major industries lost export shares in international markets over the past decade. Political instability after the revolution and a difficult macroeconomic environment have been weighing on the competitiveness of Tunisian firms and their export capacities.

According to a World Bank survey on the requirements for foreign investment decisions in 2017, multinational companies consider political stability, clear regulatory enforcement and macroeconomic stability as key determinants for their investment decisions in foreign markets.

Additionally, whereas other countries in the region promoted investments in vital infrastructure, Tunisian firms still face the obstacles of weak logistics and a low capacity in port facilities with long waiting times at the border and customs. Both domestic and foreign firms have also expressed concerns on the skill mismatch at the graduate level and their need to have access to better skilled labour for their business operations. High emigration rates of skilled workers tend to worsen this occurrence.

Furthermore, weak governance in the form of an inefficient government bureaucracy is ranked as most problematic factors in doing business in Tunisia in 2018 according to the World Economic Forum.

Chart 5: Most problematic factors doing business (2018)



Sources: World Economic Forum (2018)

Note: Higher ranking corresponds to most problematic factors based on WEF survey responses

In order to improve the participation of Tunisian firms in global value chains the country should focus on improving its infrastructure capacity and strengthening logistics efficiency. A better alignment of supply and demand of labour force skills and a stable macroeconomic environment is pivotal to attract new foreign investment and foster competitiveness of Tunisian firms. Lastly, the duality of onshore-offshore systems represents a major barrier for the domestic economy in effectively obstructive spill over effects between foreign and local firms, and hampering linkages between export producers and domestic suppliers.

Further information is available to supplement this country factsheet:

- GVC diagnostic – The Southern and Eastern Mediterranean region
 - GVC case study: Opportunities from diversification and promotion of resilience in GVCs
-