EXPORT INDUSTRIES TRICKLE DOWN IN TUNISIA

Shoe production falls into the textile category, which accounts for nearly 80% of the export-only enterprises that thrive in a near tax-free environment in Tunisia.

Tunisia, more than any other country of North Africa, has had a policy of openness to Western business and ideas since its independence. In the era of Habib Bourguiba, the longtime leader who was toppled in a coup in 1987, that meant going so far as to unveil a woman on television — a direct affront to traditional Islam.

Mr Bourguiba also initiated a policy, which has been carried through with vigour by his successor, of offering attractive conditions for foreign enterprises wishing to come and do business in Tunisia. Industries are encouraged even if all of the goods they produce and the profits they generate are destined for abroad.

Hundreds of companies, many of them in the booming clothing industry, took up Tunisia's offer, making the smallest country of the Arab Maghreb one of the region's most productive manufacturing centres. Although a few of these companies are branches of huge multinationals, most are smaller European firms.

Until recently, the government's policy of attracting export industries had been based on the assumption that it made sense to give benefits to foreign companies to encourage export production, rather than spending money on developing domestic industries in Tunisia. This assumption remained unquestioned.

It was left to researchers at the Tunis-based Agence de Promotion de l'Industrie (API), to carry out an IDRC-funded study to prove scientifically what could only be assumed before. With technical assistance from the economics department at the University of Sherbrooke in Canada, API conducted a survey of Tunisia's export industry sector and subjected their findings to rigorous analysis.

"We wanted to do a cost-benefit analysis of the implications of this policy for Tunisia," said Mr Moncef Abid, director of promotion at API and one of the project leaders. "Is it in the interest of Tunisia to further encourage these industries? How much will it cost Tunisia? How much will the country benefit? These were all questions we wanted to address," Mr Abid said.

As early as 1972, Tunisia had passed laws creating a favourable environment for foreign investment, offering tax advantages to industries that were mainly export oriented. The attraction, then as now, was to get foreign industries to invest in Tunisia and set up industries that would use Tunisian raw materials, and employ Tunisians even if the products were not for the Tunisian market.

In 1985 and 1987, further decrees were passed giving even greater advantages to such industries, exempting them from taxes on purchases of equipment, raw materials, and on their profits.

Only in 1976 was the first attempt made to study the benefits of such an investment policy. That limited study found that there was a gain in foreign currency because of the presence of export industries. Another study in 1982 aimed to find out what the nature of employment and wages were in export industries. This study concluded that women were being treated equally by export industry employers.

But it was the API study that tackled the overall question of whether targeting export industries was the best strategy for Tunisia. The answer was yes.

"The advantages which export-only enterprises offer are greater than the costs for Tunisia," Mr Abid said. "When there is foreign investment in the country it creates employment, and this is a benefit for Tunisia. Instead of having these workers go abroad to work, or emigrate, they can work here."

With an unemployment rate of 16%, or as high as 25% when the level of underemployment is factored in, Tunisia is heavily dependent on the export industries. Mr Abid said the study showed that some 20% of the new jobs created annually in the manufacturing sector are accounted for by export-only industries.

The API study was aimed at the 550 foreign-owned or controlled export-only industries operating in the country. Including such operations owned by Tunisians, there were 1,103 export-only enterprises in 1991, up considerably from 300 in 1982. Of the 550 foreign firms, most were French controlled, followed by German, Belgian, Italian, and American interests.

The study also showed that 80% of export-only industries were involved in the clothing or garment industry, which includes shoemaking.

The latter stage of the API study included detailed surveys done between 1986 and 1987. API officials travelled to Sherbrooke to carry out econometric analysis with their Canadian partners. Dr Peter Hanel, head of the Canadian site of the project, came to Tunisia to help with the preparation of the questionnaire and to provide technical assistance in the analysis of the findings.

"It's a shared project with their agreement," Mr Abid said. "The Canadians helped mainly in analysing cost-benefits. It's an exchange: we have experience, the university has experience. We shared our experiences to put this study on its feet."

API was pleased to find that company heads seemed very satisfied with the quality of Tunisian labour, its stability, and productivity. "Globally speaking, it's a favourable tendency — a good indicator for our economy," Mr Abid said.

The study looked at the export industry contribution to foreign currency reserves and the various companies' use of Tunisian energy, water, and transport. Other factors such as salaries paid to workers, consumption by expatriate workers and its contribution to the Tunisian economy, and sales by export-only industries were also analyzed.

Mr Abid said that the export-only sector had created some 70,000 jobs. "Our interests are still satisfied, even if companies repatriate their profits," he concluded. "Jobs, the distribution of salaries and income, consumption by foreigners in the local market, all this is part of a total balance sheet — one favourable to continuing the policy of giving advantages to export-only industries."

The study emphasized the advantages of export-only industries, but a rather different event underlined the importance of foreign investment to the Tunisian economy. Before the Gulf War, Tunisia was attracting high levels of foreign investment, mainly from Western countries. But when the conflict between Iraq and the Allied countries heated up, a sharp drop in economic growth occurred. Foreign investment in Tunisa, a mostly Arab country, all but dried up. Economic growth for 1991, previously pegged at 4.5%, is now forecast to be zero.

API is a Tunisian public body created by the government in 1972 to promote development in the industrial sector. It falls under the authority of Tunisia's Ministry of Industry and Commerce.

API will use the results of the research to streamline and elaborate on the government's policy of giving priority to export-only industries.

Allan Thompson in Tunisia.

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