



## TRADE PERFORMANCE AND STRUCTURE PROFILES<sup>1</sup>

### Tunisia

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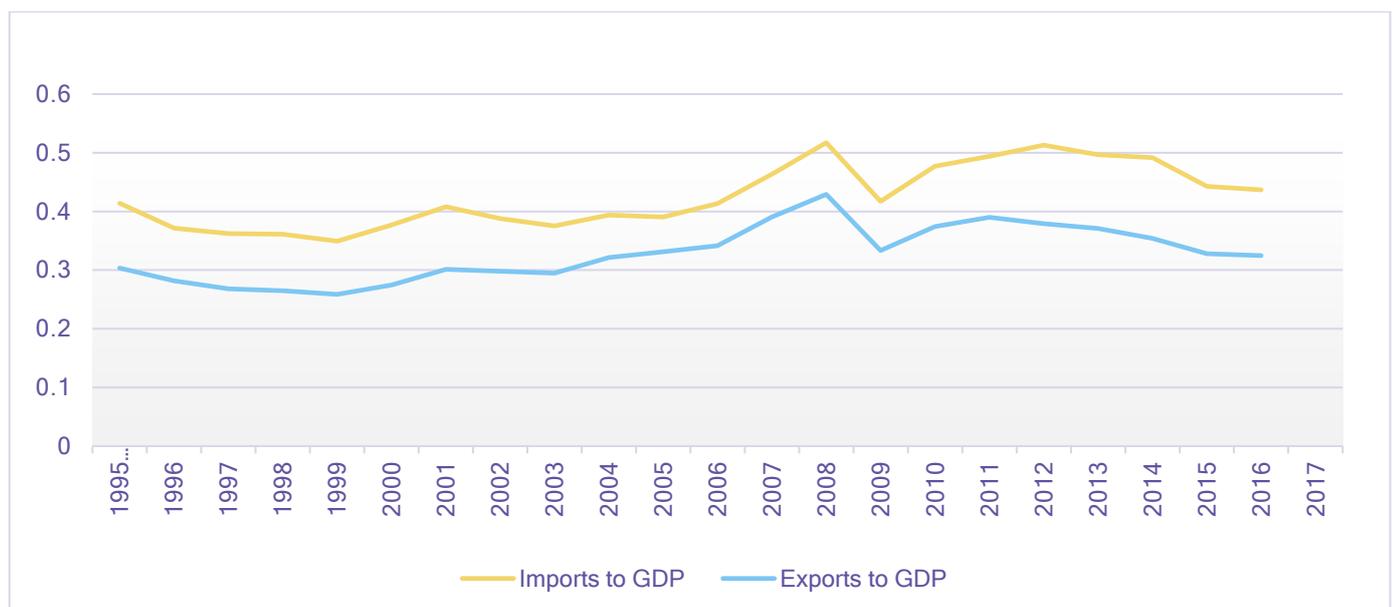
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# TRADE PERFORMANCE AND STRUCTURE PROFILES: TUNISIA

Tunisia's performance in merchandise and services trade and attracting foreign direct investment in the past two decades have been mixed. In all three domains, the impact of the global financial crisis of 2008 is marked, with a surge in trade and investment, which proved to be unsustainable, in the run up to the crisis and weak performance in the aftermath. Traditional destinations for Tunisia's exports have mainly been EU countries but PAFTA countries are rather important destinations, much more so than their share in world trade suggests. The political change occurred in 2011 affected the country's performance in exports which followed a downstream tendency since 2012. Turkey, EU and NAFTA countries hold relatively prospects for Tunisian exports, which are more and more concentrating on few products, albeit increasingly sophisticated.

## I. Trends in Trade and Investment

Figure 1: Merchandise Exports and Imports, as a share of GDP

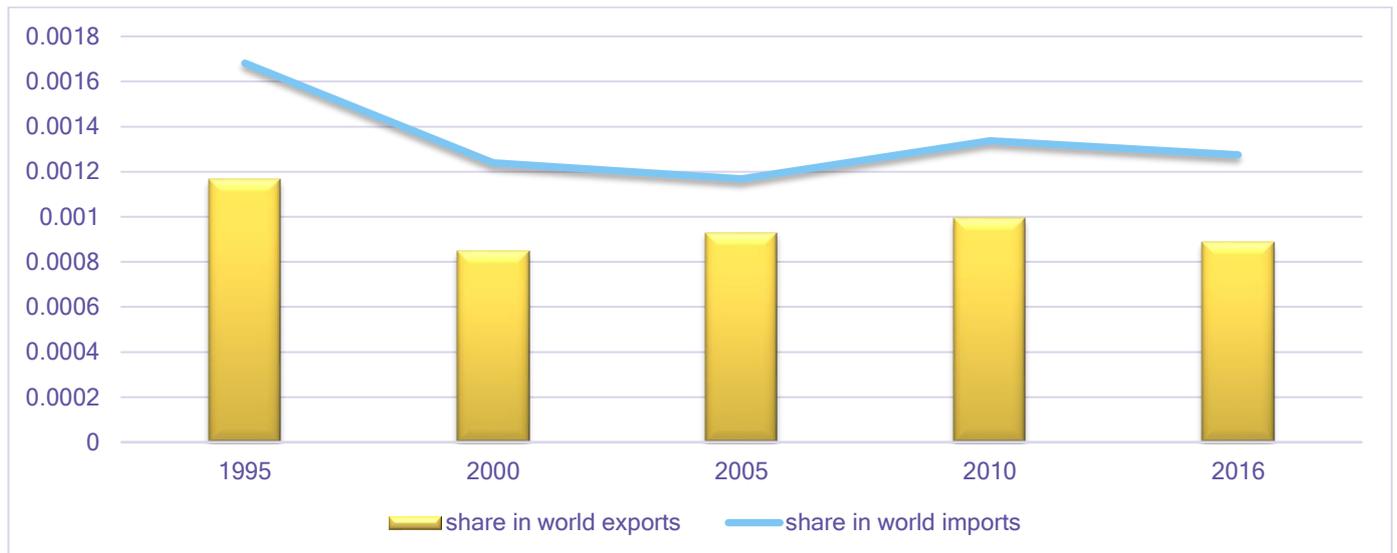


Source: ESCWA calculations using the World Development Indicators database (accessed October 2018).

Tunisia's merchandise exports and imports have exhibited mostly a gradual increase before the 2008 global financial crisis and declines in the share of merchandise exports and imports in GDP since then almost offset the gains since 1995.

In 2016, the performance in both world export and imports shares experienced a significant decline compared with 2010, which could be explained mainly by the significant drop in FDIs and consequently the demand of raw, equipment and semi-finished goods.

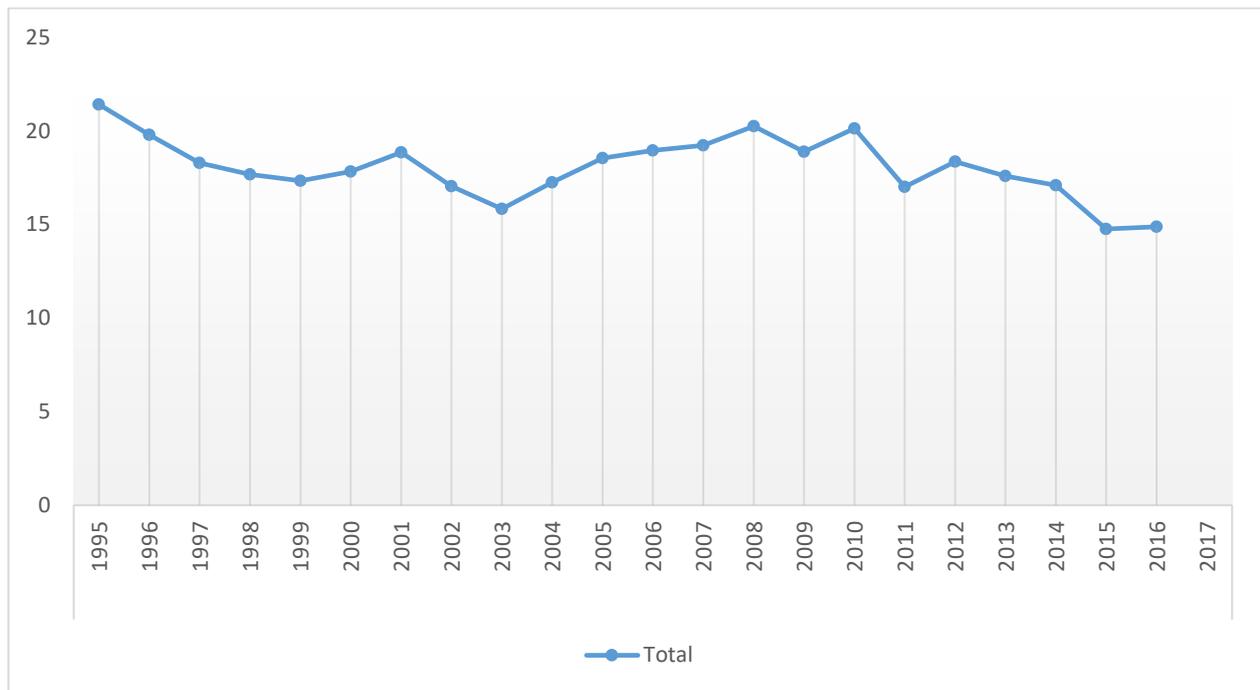
Figure 2: Tunisia's Share in World's Exports and Imports



Source: ESCWA calculations using COMTRADE data (accessed October 2018).

Tunisia's share in world export has shown a mixed pattern in the past two decades. After having declined sharply in the second half of the 1990s, the share has increased in the 2000s, though not fully offsetting the prior decline. The share has since declined slightly again.

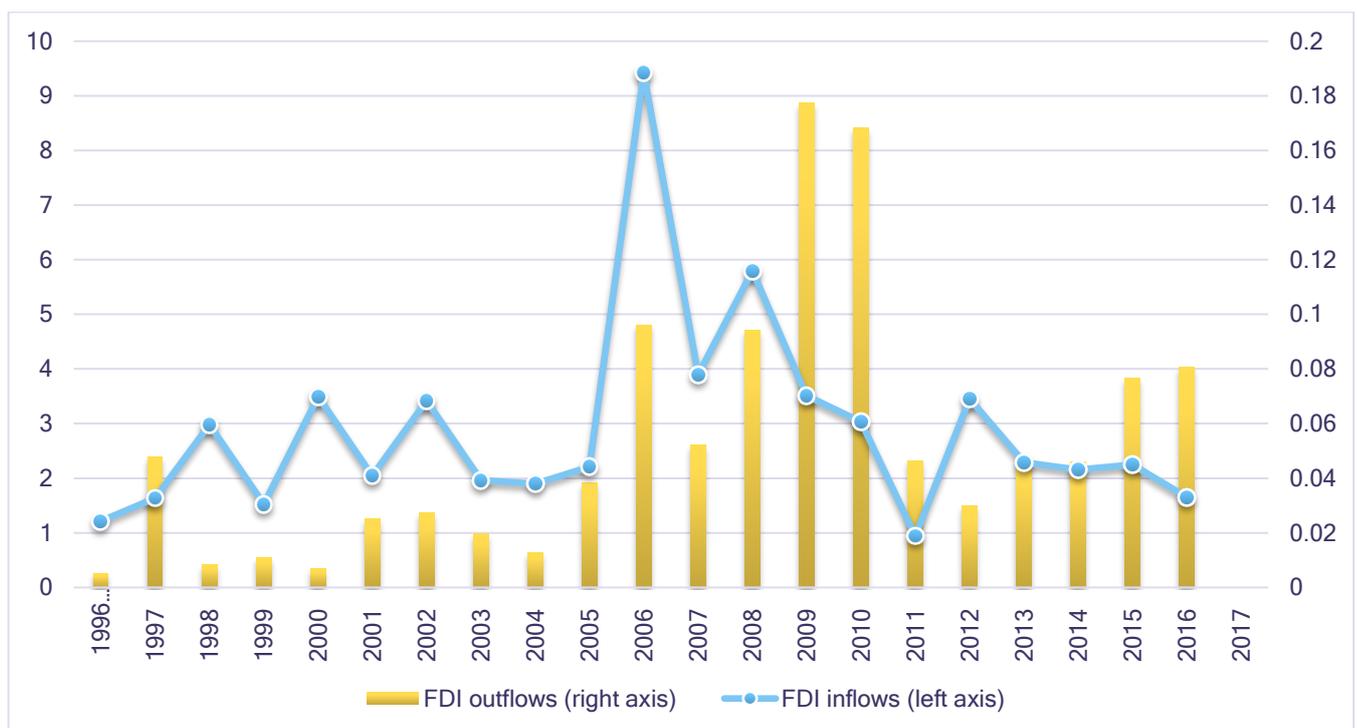
Figure 3: Tunisia's Services Trade, 1995-2016, as a share of GDP



Source: ESCWA calculations using the World Development Indicators database (accessed October 2018).

Tunisian services trade has shown considerable decline in the late 1990s. While services trade has grown in importance until the 2008 global financial crisis, it has since lost ground and the downward slide continues.

Figure 4: FDI net inflows and outflows, 1996-2016, as a share of GDP



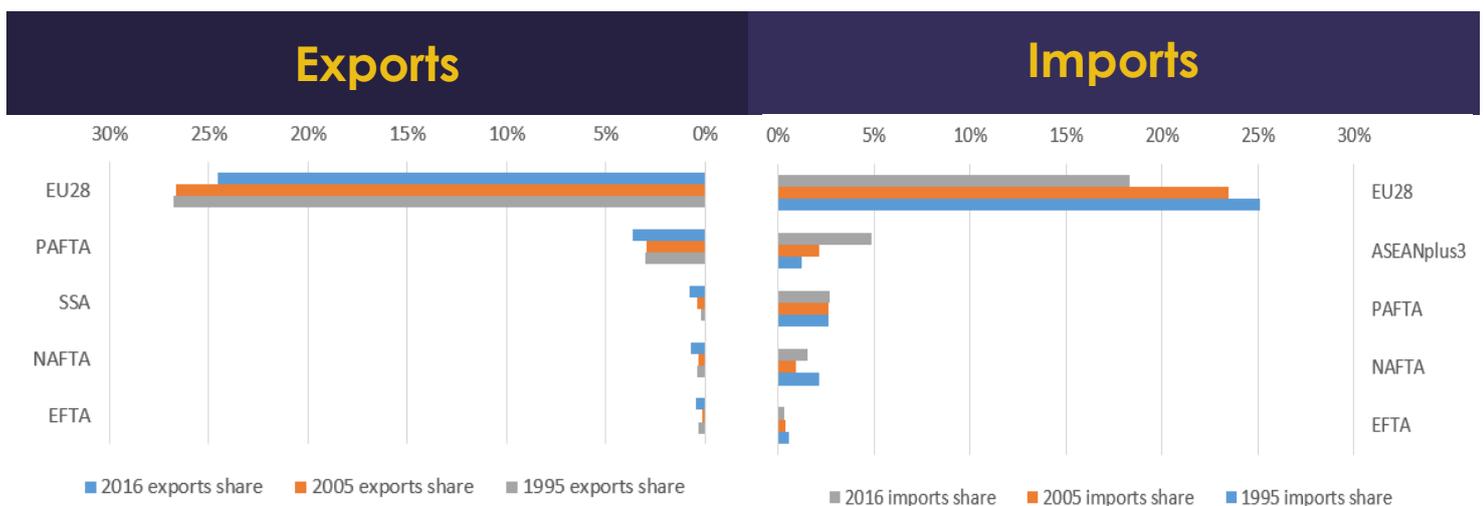
Source: ESCWA calculations using the World Development Indicators database (accessed October 2018).

FDI has been a fairly stable source of funding for Tunisia, which has seen a surge of inflows in the run up to the global financial crisis and of outflows in the aftermath.

## II. Merchandise trade structure and indicators performance

This section assesses the trade performance and structure of Tunisia employing a range of indicators and indices created using highly disaggregated product data at HS6 level.

Figure 5: Top export destinations and import sources, as a share of total exports and imports, 2016

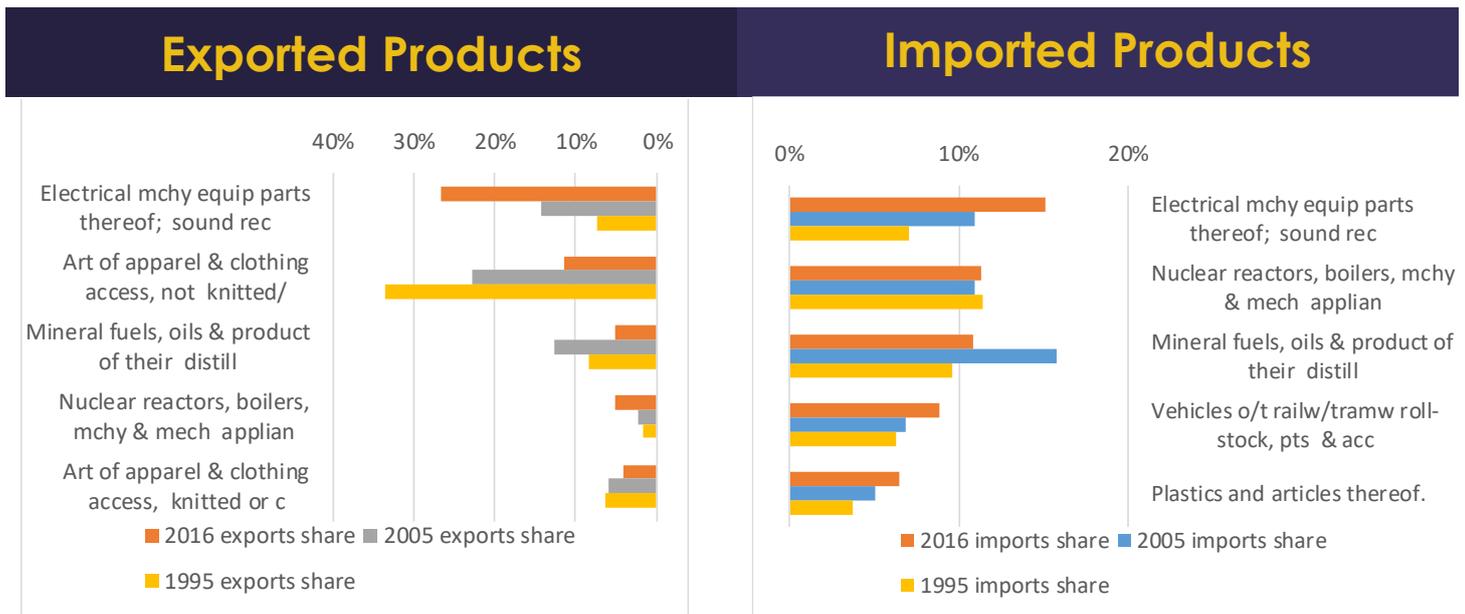


Source: ESCWA calculations at HS6 level using COMTRADE data (accessed October 2018).

Tunisia has strong linkages with the UE and mainly France, Italy and Germany as major merchandise exports destinations and import sources, with France being the top export destination by far.

**ASIAN+++ is the second major trade partner in terms of imports while PAFTA is the second major destination of exports. China and Turkey feature among top five import source countries.**

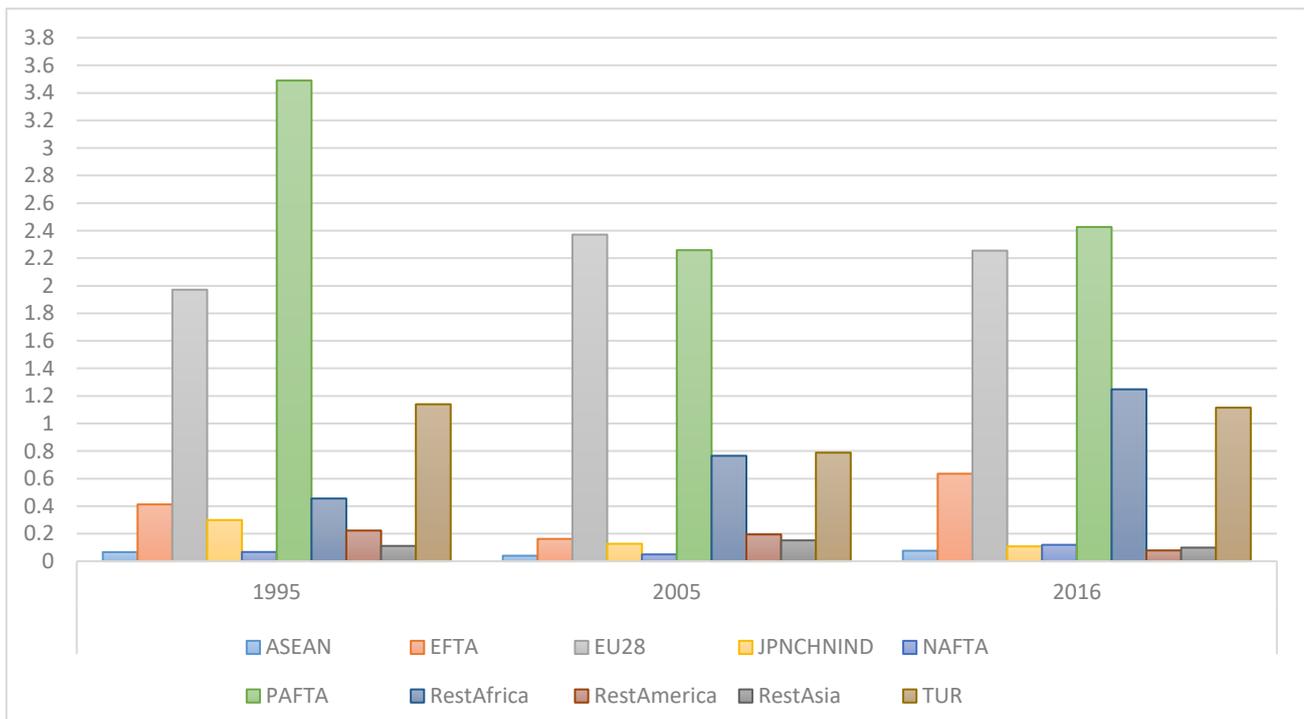
Figure 6: Top products exported and imported, 2016 (as a share of exports and imports)



Source: ESCWA calculations HS6 level using COMTRADE data (accessed October 2018).

Tunisian exports are concentrated mainly on electrical machinery equipment and parts, articles of apparel and clothing, mineral fuels and oils and nuclear reactors, boiler. Most of these articles also appear on the list of top imports, with the addition of railways and tramway vehicles and plastics.

Figure 7: Trade Intensity Index

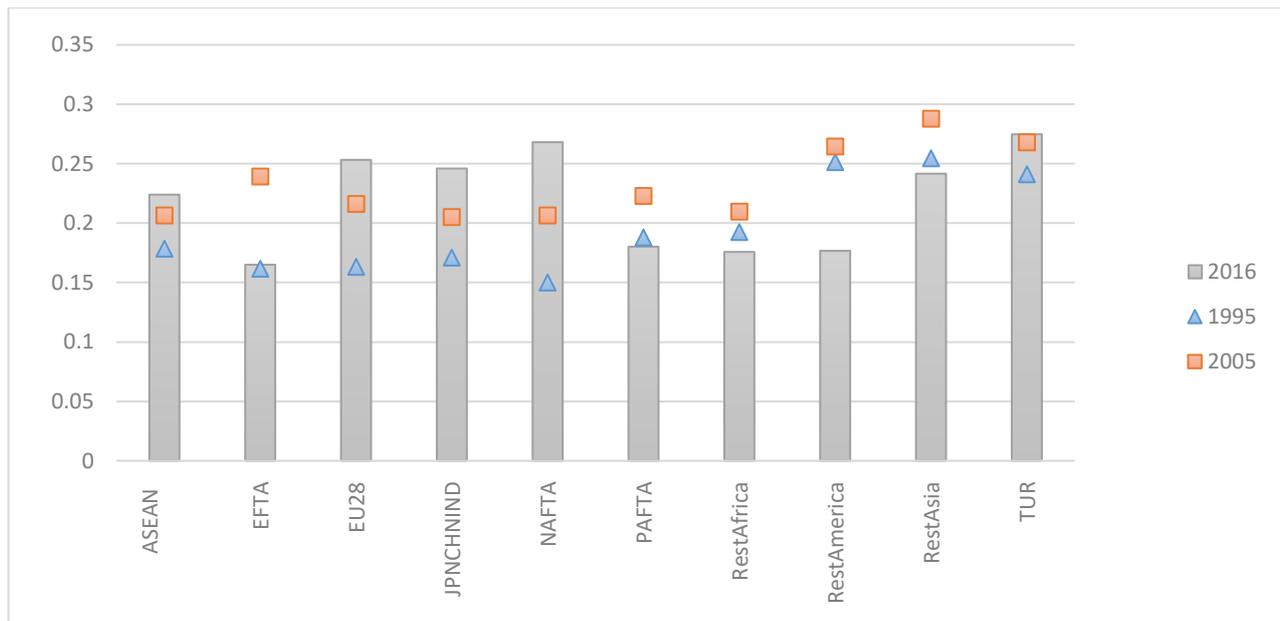


Source: ESCWA calculations at HS level based on COMTRADE data (accessed October 2018).

The trade intensity index captures whether the value of trade between a reporter and partner is greater or smaller than would be expected based on their importance in world trade.

Tunisia traditionally traded more extensively with the European Union and PAFTA countries than the world trade share of those blocs suggested. On the other hand, Asian and American countries have been much less important partners than their share in world trade implies. African countries, however, have gained considerable ground and now their importance for Tunisian exports is in line with their world trade share.

Figure 8: Trade Complementarity Index

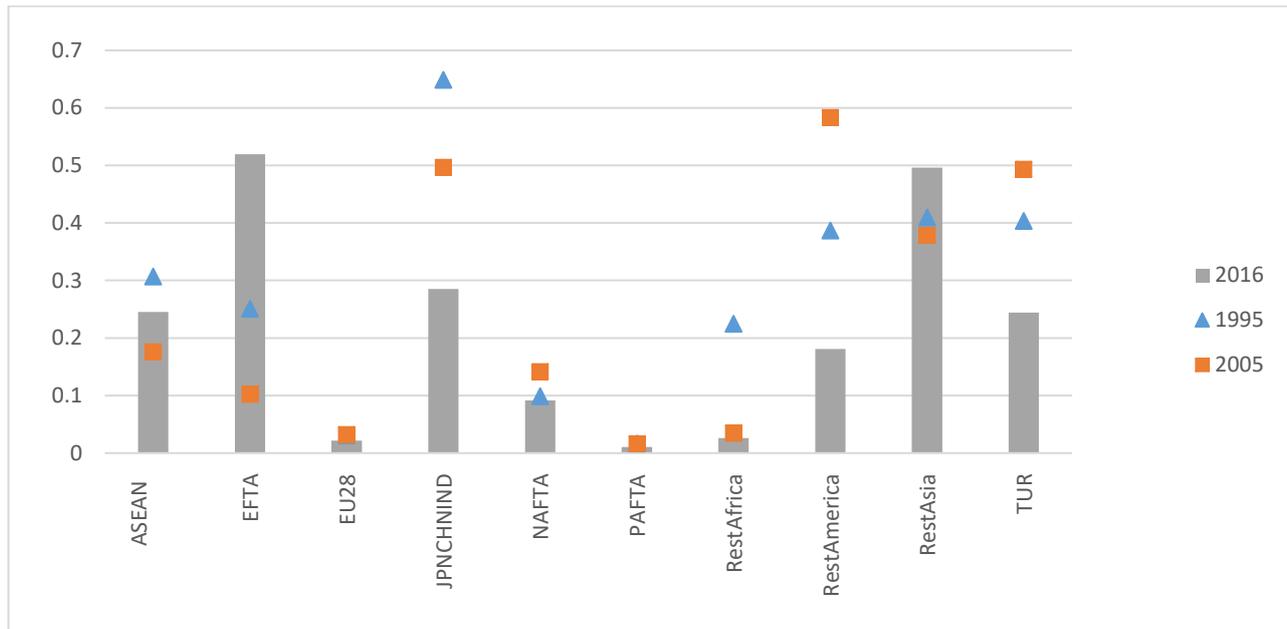


Source: ESCWA calculations at HS level based on COMTRADE data (accessed October 2018).

The trade complementarity index captures how well the structures of a country's exports and its partner's imports match, showing the extent of prospects for further exchange. The index takes on the value "zero" when no goods are exported by one country or imported by the other and the value "one" when the export and import shares exactly match.

The index attains relatively higher values with Turkey NAFTA, the EU, and Asian countries, as of 2016. PAFTA, African and EFTA countries hold weaker prospects for Tunisian exports, based on the index.

Figure 9: Hirschman-Herfindahl Index (bilateral export portfolio diversification)

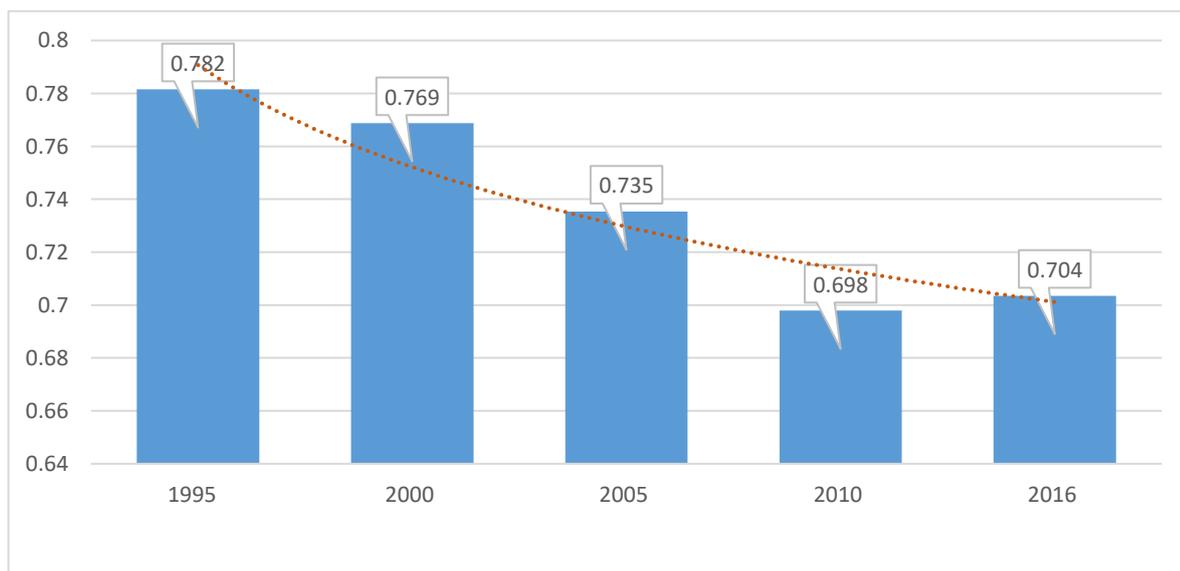


Source: ESCWA calculations at HS6 level based on COMTRADE data (accessed October 2018).

Tunisia appears to have less diversified export portfolios vis-à-vis most of its partners, with the notable exception of Asian countries excluding ASEAN members, India, Japan, and China, as measured by the Hirschman-Herfindahl Index that captures how diversified a bilateral export portfolio is.

A country with a perfectly diversified export portfolio will have an index close to zero, whereas a country which exports only one export will have a value of 1 (least diversified).

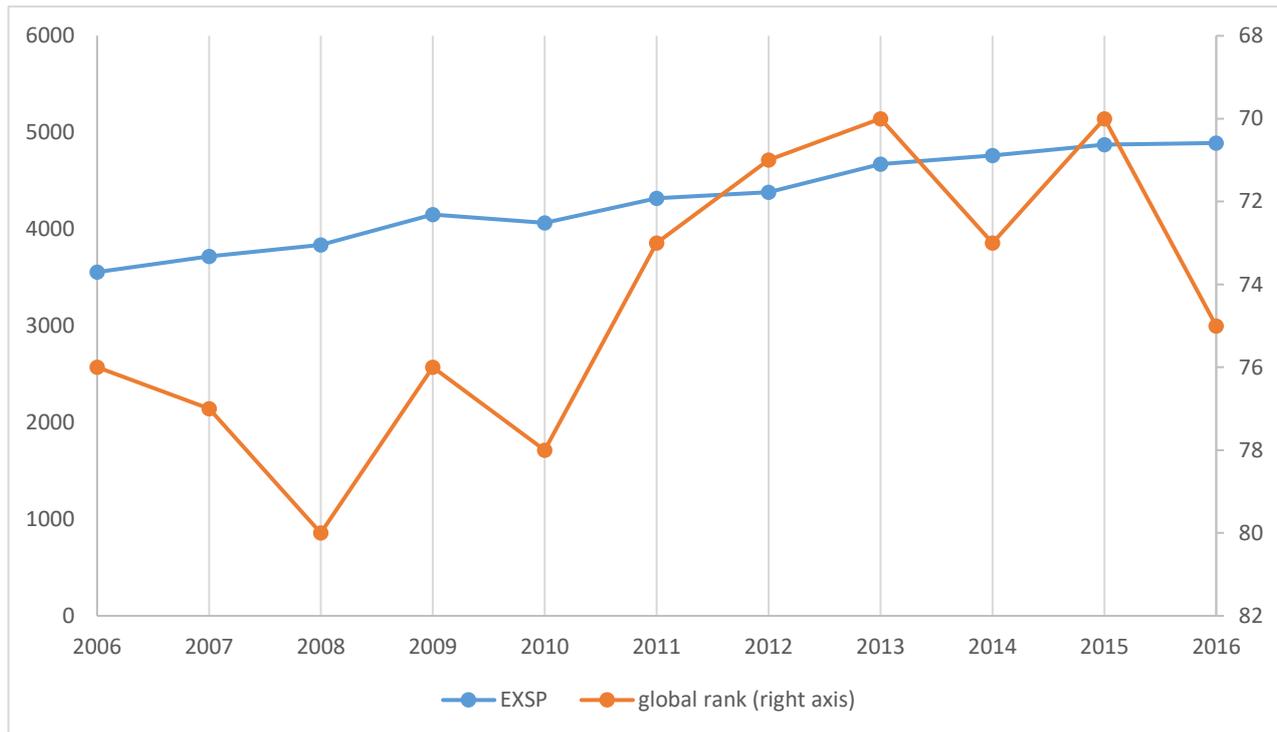
Figure 10: Export Diversification Index



Source: ESCWA calculations at HS6 level based on COMTRADE data (accessed October 2018).

Export diversification index measures whether a country is highly dependent on relatively few products or its export portfolio is diversified. The lower the index, the less concentrated are a country's exports. According to this index, Tunisia has managed to diversify its export portfolio to some extent, but exports diversification, as measured by the index, appears to have stalled since 2010 with a slight improvement in 2016.

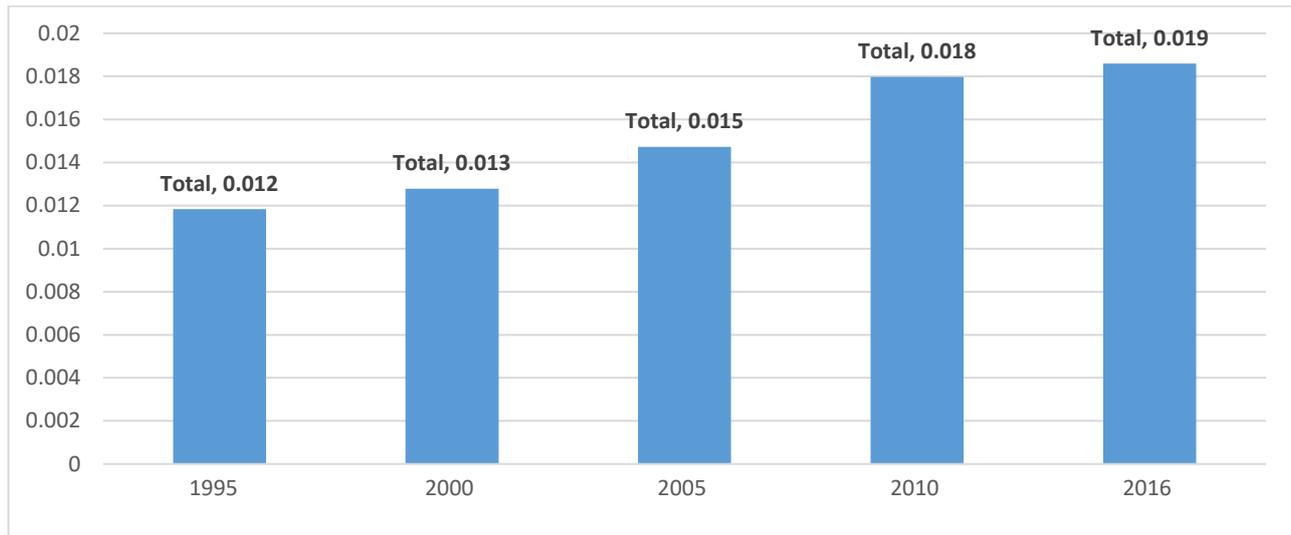
Figure 11: Export Sophistication



Source: ESCWA calculations at HS6 level based on COMTRADE data (accessed October 2018).

While Tunisia has exhibited constant improvement in specializing in products that are more sophisticated over the past decade, it has climbed only one spot in global rankings, suggesting that other countries almost matched the pace of Tunisia in doing so.

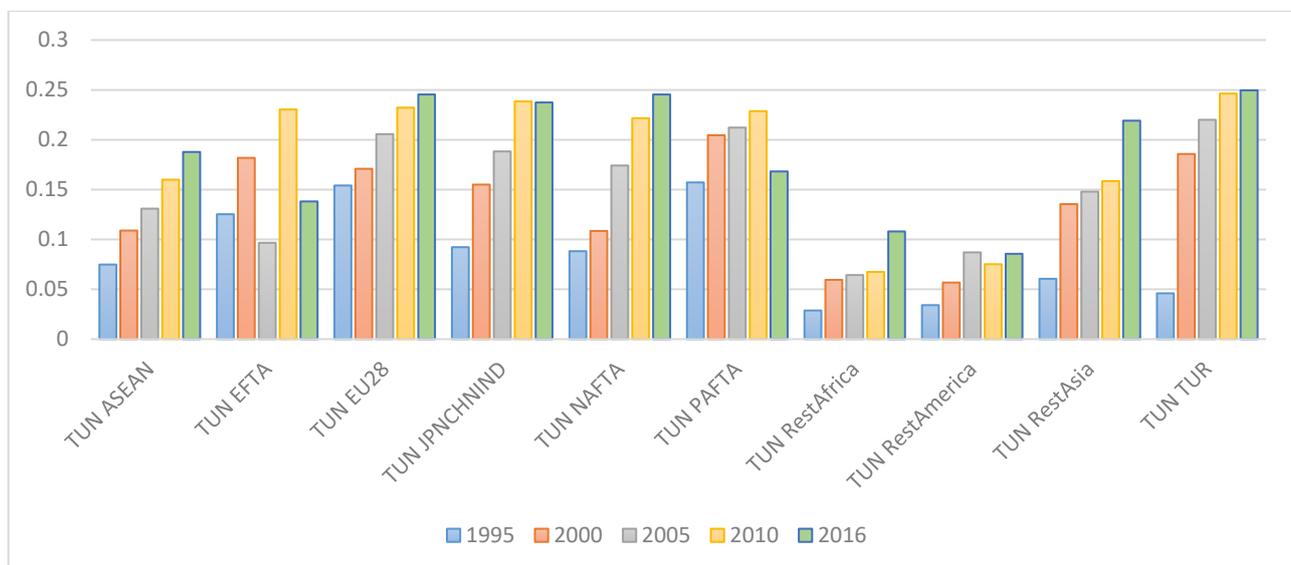
Figure 12: Export Market Penetration Index



Source: ESCWA calculations at HS6 level based on COMTRADE data (accessed October 2018).

Tunisia's penetration into export markets has been steadily improving, as measured by the Export Market Penetration index. The index is essentially the share of the actual number of export relationships (at the country-product level) forged by the country in question in the maximum possible number of export relationships it can form given its exports. The level of the index, however, remains rather low, reflecting the vast potential for Tunisia to expand into new markets.

Figure 13: Export Similarity Index

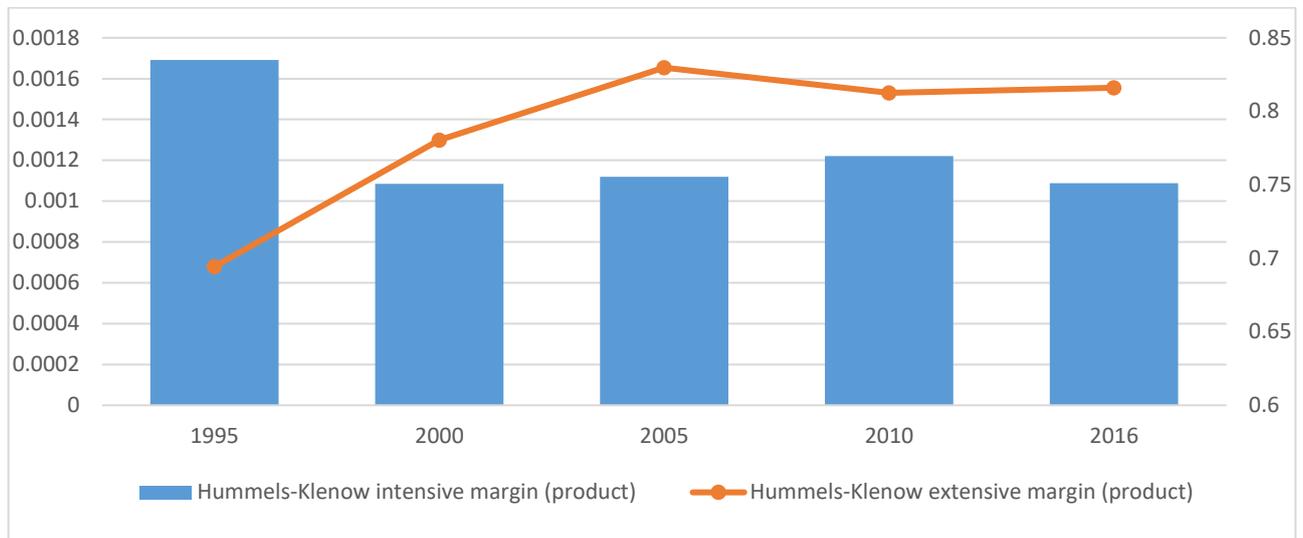


Source: ESCWA calculations at HS6 level based on COMTRADE data (accessed October 2018).

The export similarity index captures the extent to which two entities in question are competitors in a common market. The index value of zero suggests that there is no competition between the two countries and of one that they are perfect competitors. Based on the export similarity index, Tunisia's main competitors in world markets are the EU,

Japan, China, and India, NAFTA and Turkey, while PAFTA and ASEAN countries are to a lesser extent.

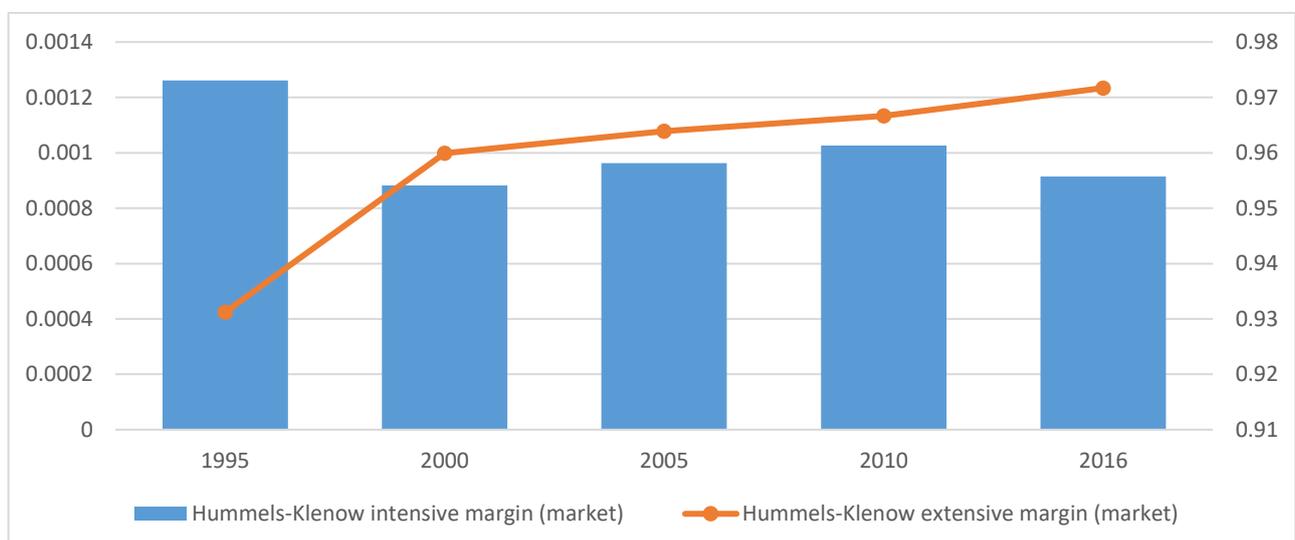
Figure 14: Hummels-Klenow intensive and extensive margins (product)



Source: ESCWA calculations at HS level based on COMTRADE data (accessed October 2018).

It is interesting to reveal whether Tunisia exports larger quantities goods or a greater variety of goods. To measure the first the product-based Hummels-Klenow Intensive Margin is often used, which essentially captures the share of Tunisia's exports in the world exports of products that only Tunisia exports. This index hovered around 0.1 percent and had seen a sharp decline in the second half of the 1990s; which was in part due to the relatively sizable increase in the share of the products Tunisia exports in total world exports of all goods, also referred to as product-based Hummels-Klenow (Products) Extensive Margin and gives an indication of how wide the set of goods a country exports.

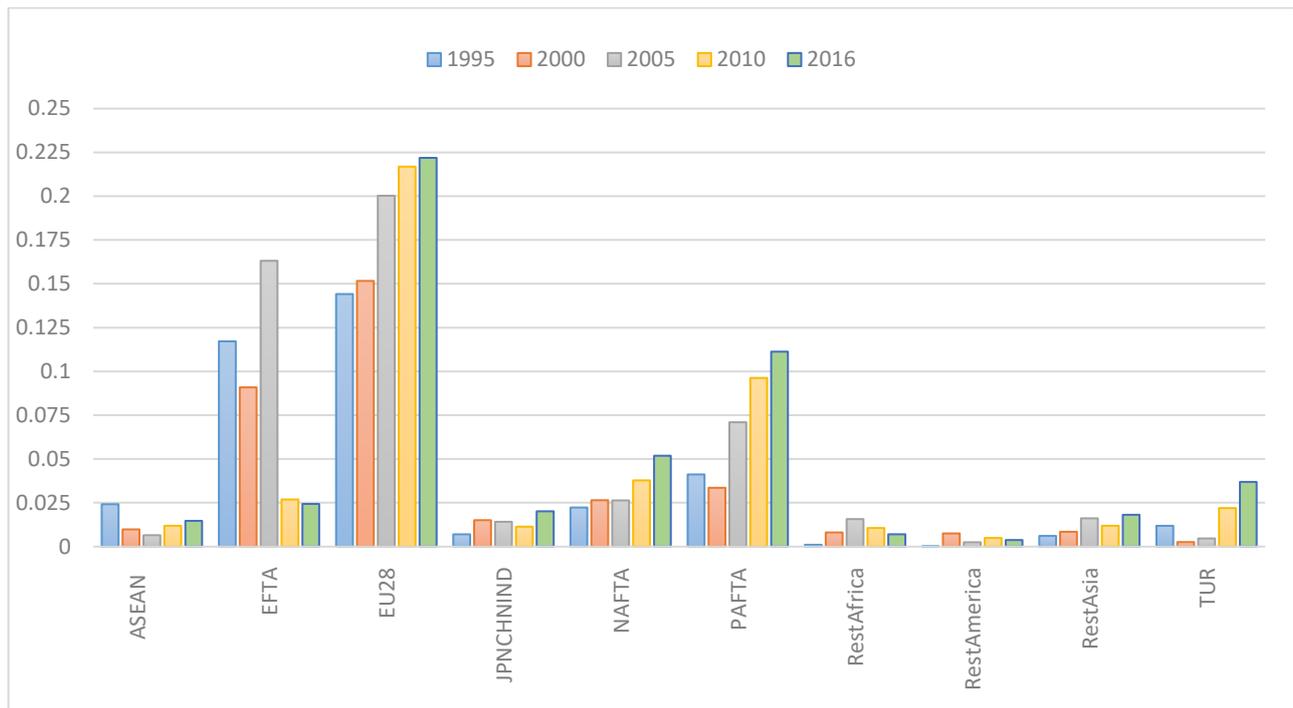
Figure 15: Hummels-Klenow intensive and extensive margins (market)



Source: ESCWA calculations at HS6 level based on COMTRADE data (accessed October 2018).

Similarly, it is illuminating to see as to whether Tunisia exports larger amounts to its existing trade partners or expands into new markets. As a measure of the former, Tunisia's share in the total world exports to only those countries that Tunisia exports to, the market-based Hummels-Klenow Intensive Margin, has been around 0.9 percent since the 2000s, after a marked decline in the second half of the 1990s. This decline corresponds to the surge in the share of world exports to only those countries that Tunisia exports to in total world exports of all goods, referred to as the market-based Hummels-Klenow Extensive Margin and captures the extent of expansion into new export markets.

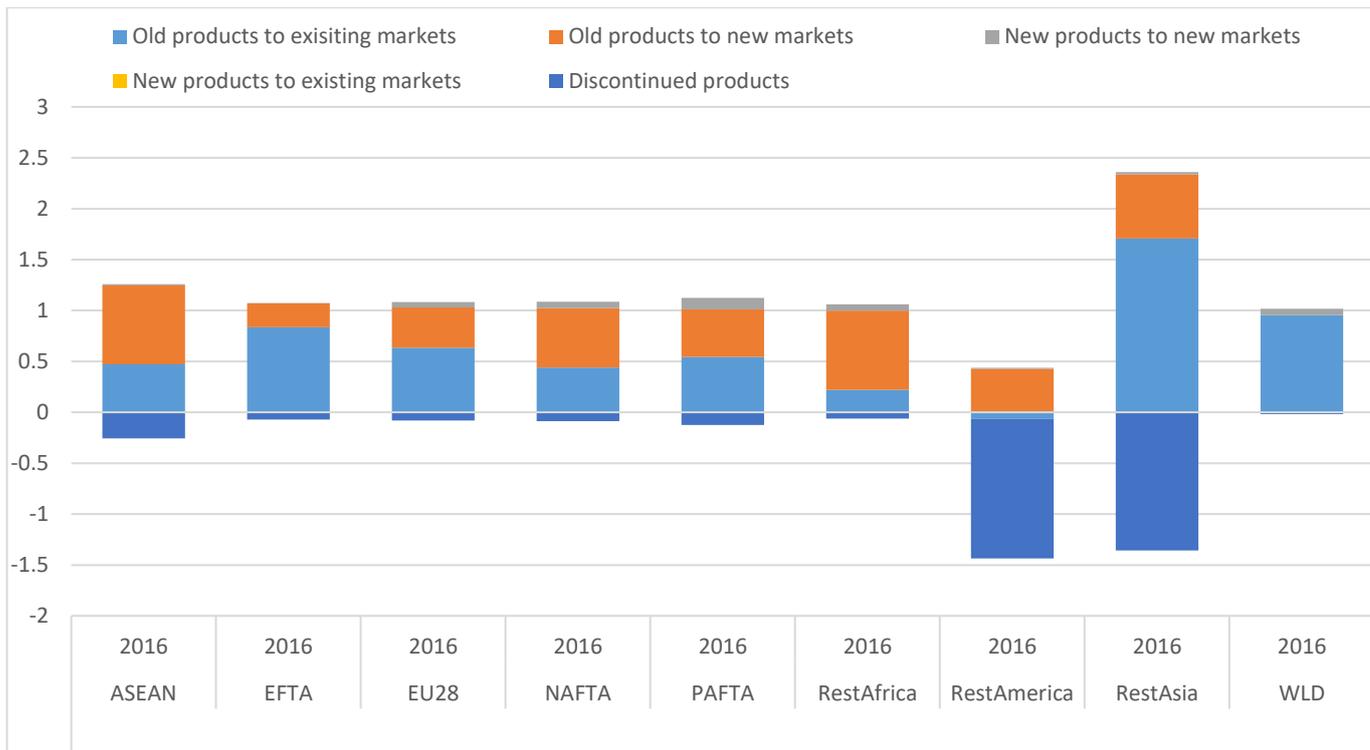
Figure 16: Intra-industry Trade Index



Source: ESCWA calculations at HS6 level based on COMTRADE data (accessed October 2018).

Tunisia has engaged in intra-industry trade, though to a limited extent, with the EU, EFTA and PAFTA countries. The intra-industry trade index measures the extent to which products that belong to the same industry were being traded between two countries, ranging between 0 and 1 and with values close to 1 corresponding to high level of intra industry trade.

Figure 17: The composition of the change in bilateral merchandise exports between 1999 and 2016 along intensive and extensive margins



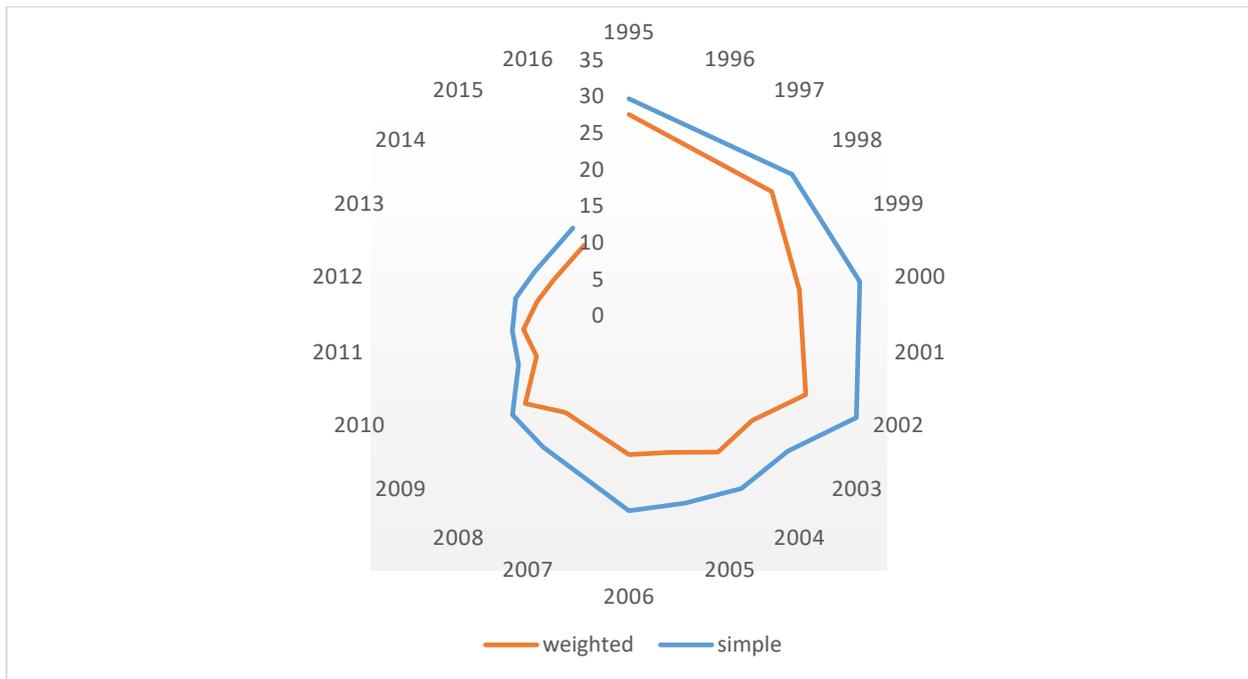
Source: ESCWA calculations at HS6 level using COMTRADE data.

Notes: The abbreviations and the list of the countries included in each group are as follows. The Association of Southeast Asian Nations (ASEAN) is created using Indonesia, Malaysia, Philippines, Thailand, and Vietnam, not including Brunei, Cambodia, Laos, Myanmar, and Singapore. [to be completed]

Overall, only a rather small share, around 5%, of the change in the exports of Tunisia between 1999 and 2016 has come from new products and/or markets. This share is around 60% for the United Arab Emirates and Bahrain, 30% for Egypt and 25% for Viet Nam. Across different destinations, EFTA stands out as the destination to which Tunisian exports almost exclusively have been new products. ASEAN and countries in the Americas excluding NAFTA members have been dynamic markets for Tunisian exports, with a high value share of new products and markets. These two blocs are also prominent as partners of Tunisia in terms of high shares of discontinued products. The EU and, to a lesser extent, PAFTA are relatively stagnant exports markets, with a relatively low value share of new products.

### III. Trade Policy

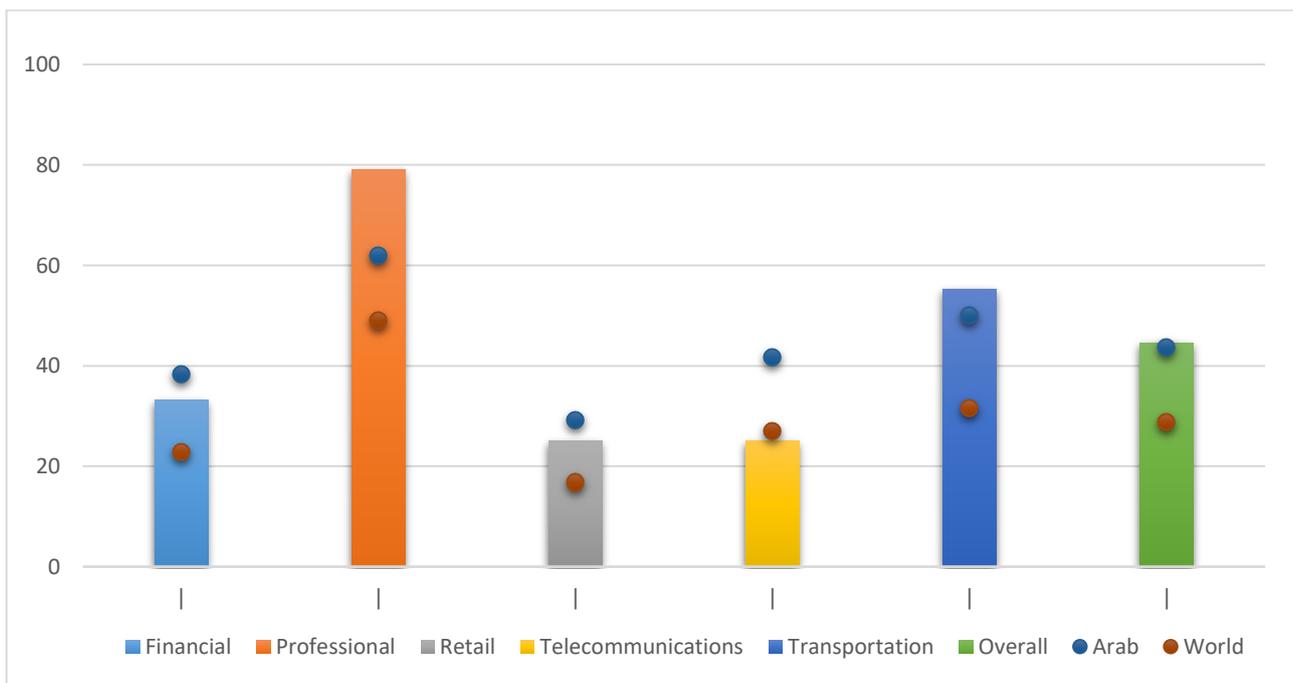
Figure 18: Tariff Rates, MFN, simple and weighted



Source: ESCWA calculations using the World Development Indicators database (accessed October 2018).

Tunisia has significantly reduced tariff protection. Over the past two decades, averaged tariff rates, simple and import weighted, more than halved.

Figure 19: Services Trade Restrictiveness Index, 2010



Source: Borchert, Gootiiz and Mattoo (2014).

The restrictiveness of policy and regulations on services trade in Tunisia is on par with other Arab countries but is more stringent than the world average. Tunisia appears to have more restrictive policies and regulations in especially professional and transportation services, and to a lesser extent in financial and retail services.

## END NOTE

Tunisia, after decades of rather significant economic and export performance, can no longer accelerate its performance. The financial crisis of 2008, even though the Tunisian financial market is practically isolated from the global financial sphere, was the year of major economic upheavals. The economic model pursued since the 1970s seems to require a review not to abolish it but rather to strengthen it to exploit new business opportunities and take a more significant place in global value chains. The political change in 2011, which should contribute to a new economic revival through better governance, has only further affected the country's performance in attracting investment and promoting exports. Tunisia should develop a strategy for economic and social development with a clear identification of the trade and sectoral policies needed to bring the country out of its current crisis. An identification of avenues for diversification of its productive capacities, an improvement in the logistics of international trade, and a reformulation of the policy of encouraging investments should be included in the priorities of the decision-makers. The non-adoption of these policies will only accentuate the decline in Tunisia's contribution to international trade and cause the country to lose opportunities that are constantly escaping.