

# **Agricultural Trade Liberalization and Poverty in Tunisia: Microsimulation in a general equilibrium framework**

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# I. INTRODUCTION AND BACKGROUND

## Trade liberalization and Poverty

- Trade liberalization is an important part of the policy package for growth and prosperity and potentially for poverty alleviation.
- The link between trade liberalization and poverty matters since that the former affects the direct determinants of the latter.
- Trade liberalization has direct and indirect effects:
  - The direct effects occur via the modification of the output prices → productive combination of factors and their prices → welfare of rural and urban households.
  - The indirect effects occur through the expected impact on growth and income distribution which are recognized as key variables determining the poverty level in a given economy.

## II. OBJECTIVES AND METHODOLOGY

### Research objectives

- Given that Tunisia's agriculture currently enjoys substantial protection, additional broad based trade liberalization will likely have a detrimental impact on some classes of households, including the bulk of the poor population.
- The main objective of this research is to model and assess the impacts of agricultural trade liberalization on household's income, production composition, trade structure, employment and poverty indicators.
- Two major questions rise:
  - How will Tunisian economy be affected by the new expected agreements on agricultural trade liberalization (at bilateral and multilateral levels) ?
  - How will households react to these macro changes ?

## II. OBJECTIVES AND METHODOLOGY

### Research methodology

- This study uses a static CGE model and a fully integrated micro-simulation approach for analyzing alternatives trade reforms in Tunisia.
- In order to focus on agriculture and issues of poverty, the model uses a relatively detailed treatment of agriculture production, trade instruments and factor markets.
- The model comprises 17 activities, among which 14 are agricultural and food processing.
- 5 labor categories, land, other natural resources and physical capital.
- Institutions: 397 households, the government, EU, and the Rest of the World.

# III. Simulations and main results

## Scenarios

Four scenarios are examined:

- L1: Phasing out tariffs on manufactured products imported from the EU
- L2: Tariff liberalization on all imports from the EU including the agricultural products.
- L3: Extension of tariff liberalization on imports from the non EU countries.
- L4: The last scenario combines the third with a multilateral agricultural trade liberalization reflected by an increase in world prices of most agricultural and food products imported by Tunisia.

# III. Simulations and main results

## Macroeconomic results

	Base year	L1	L2	L3	L4
GDP	38672.9	0.2	0.3	0.2	0.2
Total output	39910.4	3.7	4.1	5.6	5.2
CPI	1	-2.3	-3.5	-4.1	-4.3
Tariff income	1327.8	-71	-79.8	-100	-100
VAT adjustment	1	2	2.2	2.5	2.9
Total final consumption	14586.1	-1.9	-1.7	-1.6	-1.5
Total exports	8030.3	23.2	26.1	32.0	33.7
Exports to EU	4158.1	15.7	17.7	14.9	17.7
Exports to the RW	3872.2	51.3	57.8	95.8	93.3
Total imports	8325.7	15.9	18	22	22.5
Imports from the EU	5482.6	32.1	36.4	23.4	24
Imports from the RW	2843.1	-30.8	-35.4	18	18.1

### III. Simulations and main results

#### Effects on poverty

	Base	L1	L2	L3	L4
<b>Poverty incidence</b>					
National	8.1	7.7	7.7	7.6	5.4
Rural	15.8	14.3	14.3	14.1	7.9
Urban	3.2	3.5	3.5	3.5	3.7
<b>Number of poor</b>					
National	735215	-4.7	-4.9	-5.7	-33.7
Rural	557210	-9.5	-9.5	-10.6	-49.7
Urban	178005	10.3	9.8	9.8	16.4
<b>Gini coefficient</b>					
National	0.417	0.415	0.409	0.394	0.424
Rural	0.353	0.345	0.357	0.342	0.380
Urban	0.389	0.390	0.385	0.371	0.401

## IV. Conclusion

- Tunisia has carried out several reforms in the frame of the SAP, but the level of agricultural protection remains very high.
- Like many other Arab countries, Tunisia is a net importer of agricultural products. Hence a multilateral liberalization will cause a decline in the terms of trade. In the other hand, it would benefit from domestic liberalization due to efficiency gains.
- The combined effect tends to be positive since that most estimates show that efficiency gains are larger than terms of trade losses.



*Thank you for your attention...*

