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Tunisia
Advancing Tunisia's Global Integration

Reforms options in the context of deeper integration with the EU

(In Two Volumes) Volume II: Annexes

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Annex 1. Gravity-based estimates of Trade Costs Measures

Trade data, generally speaking, display consistently two strong features: (i) exports (imports) rise proportionately with the economic size of the destination (origin) country; (ii) there is a strong negative relation between distance-- an inadequate proxy for trade costs-- and trade. These are the two key observable elements that enter the gravity model that also account for its popularity. [1] Trade costs depend on a country's internal and external policies, and on the policies of its trading partners. Combined with shipping costs, these factors add up to 'trade costs'. Some trade costs are endogenous to a country's choices and others are exogenous. Exogenous trade costs include geographical distance between partners, common features between trading partners (e.g. common language, common history, and common border) and measures of the 'thickness' of the borders between the countries. These include logistics performance (cost, delay, the extent of trade facilitation), international connectivity, and policies (tariffs, non-tariff measures and all other policies affecting the services embodied in trade). Jointly, these factors determine how domestic production is split between internal sales and exports.

Inverting the gravity model. Novy (2012), Head and Mayer (2013), and others have shown that the structural gravity equation (1) reported below is derived from three types of micro-founded trade models. This makes it particularly attractive to estimate conditional (i.e. to the validity of the model) trade costs. To compute bilateral trade costs, tc_{ij}, we need to invert the structural gravity equation

$$x_{ij} = \left(\frac{Y_i Y_j}{Y^W}\right)\left(\frac{tc_{ij}}{\Pi_i P_j}\right)^{-\eta} \Leftrightarrow tc_{ij} = \left(\frac{x_{ii} / x_{jj}}{x_{ij} / x_{ji}}\right)^{\zeta} - 1; \eta, \zeta > 0 \qquad (1)$$

Since bilateral trade barriers affect internal and international trade, letting (tc_{ii}, x_{ii}) and (tc_{jj}, x_{jj}) denote intra-national trade barriers and intra-national trade flows, countries with a more closed economy will have higher multilateral trade resistance terms (Π_i, P_j), typically CES aggregate price indexes. Take two countries i and j of the same size and the same domestic trade costs. Then, the country that is relatively more closed (say i if $x_{ii} > x_{jj}$) will have a higher multilateral resistance term. As shown in(1), if bilateral trade flows increase relative to domestic trade flows, it could be due to a reduction in bilateral trade costs. This expression becomes operational after constructing intra-national trade flows obtained by taking services out of GDP. Note that because of the embodied symmetry, international trade costs are a geometric average of origin and destination trade costs, so any change in trade costs could come from either (or both) partner(s).

If structural gravity holds on the data (and income and trade are jointly determined), then (1) provides an estimate (rather a calibration) of aggregate trade costs directly from observable data. The resulting ad-valorem estimate of total bilateral trade costs (tariffs, language barriers, currency barriers, the equivalent of NTMs, etc.) bypasses having to specify a functional form for trade costs. Moreover, typical proxies for trade costs in the standard gravity-based estimates of trade costs, such as distance, do not vary over time. A similar method used to estimate trade costs for trade in services. Comparing estimates of trade costs for trade in goods with those for trade in services suggest much higher trade costs in services trade than in goods trade. [1]

[1] Assuming, as other have done that the gravity model applies also to trade in services, Miroudot et al. (2012) use the same approach to measure trade costs in services over the period 1999-2009 for 55 countries. Defining trade costs as additional costs facing foreign suppliers relative to domestic suppliers for GATS, they find that trade costs in services are between two and three times higher for GATS modes I (cross-border services trade) and II (movement of consumers) than for goods trade. Unfortunately their sample does not include Tunisia. Using this approach to examine the effects of RTAs in services, Miroudot and Shepherd (2013) find that Services RTAs are largely non-discriminatory as they do not lead to substantial trade preferences.

Computing Trade costs estimates. Estimated trade costs include observable and unobservable factors and are based on an identity to bypass common problems that besiege econometric estimates such as omitted variable bias or endogeneity. But there are shortcomings when it comes to interpretation. Since the estimate of trade costs is a geometric average of the bilateral estimates in both directions, one does not know whether the change in trade costs comes from the source or destination country (or both). In effect, all that one knows is the relative trade costs, i.e. domestic versus international. Since many models give rise to structural gravity, the change in trade costs could be due to a change in fixed or variable costs. Finally, as also pointed out by Arvis et al.(2013), since the multilateral resistance terms have been netted out, we do not know if changes in tcij also capture price changes.

Computing this estimate of trade costs requires data on gross production and a split of production into traded-and non-traded production (production made and sold within the country). When applied to a large group of countries, the resulting estimates have shortcomings (Arvis et al. discuss at greater depth). First, only 15 percent of countries report re-exports. Second, many countries do not have gross-output figures so scaling factors have to be applied to go from value-added to gross output. Finally, to get an estimate of domestic shipments, exports to the rest-of-the world are subtracted from total gross output previously estimated. Arvis et al (2013) started with 178 countries over the period 1995-2010 but, due to missing data, they ended up with around 90 countries that had complete data for agriculture and manufactures over the entire period.

All estimates reported in section 2 compare the time profiles of Tunisia's trade costs with those of several other groups:

GAFTA

The top 10 exporters as in Arvis et al.

The EU members

1) A group of comparators: Bulgaria, Bolivia, Chile, Dominican Republic, Ecuador, Guatemala, Hungary, Jordan, Paraguay, Slovakia, Slovenia. These are the countries in the closed sample with a per capita income between $5000 and $15000 in PPP and population between 5 and 15 million in 2005.[2]

Correlates of Trade costs. Arvis et al. also carry out an analysis of variance of bilateral trade cost estimates against the standard factors included in gravity equations (distance, RTAs, LPI and LSCI indexes, common border, common language, etc.) As well-known, they find that geographical factors (e.g. distance) count most. Interestingly, they also find that logistics performance and maritime connectivity count much more than tariffs and RTA membership and that this pattern is quite stable across country (North-North-South and South-South) groupings. Their decomposition shows that the combined effects of trade facilitation, logistics performance and connectivity play as great (or at times greater) role in determining trade costs than geographical factors. They also find that their proxy for 'behind-the-border' measures (i.e. regulatory and institutional features of an economy) captured by the cost of starting a business are important in overall trade costs for South-South trade (see their Table 9).

The conclusion from these correlations is that it would be useful to pursue further any evolution of the values and rankings of Tunisia for:

[2] To give an example from a study with good data, from a sample of 13 OECD countries covering 1970 to 2000, Novy (2012) estimates that average trade costs of Canada [Korea] fell from 131 percent [246 percent] to 101 percent [146 percent]. He also estimates that trade costs between the US and its NAFTA partners dropped more rapidly during the period of NAFTA implementation, showing the benefits of market integration. Comfortingly, he also shows that his constructed measure of trade costs is correlated with expected determinants (e.g. distance increases trade costs and adjacency reduces them). Finally, conditional on the validity of the gravity model, he decomposes the growth in trade into income growth, decline in relative bilateral trade costs and changes in relative multilateral resistance.

- Logistics Performance Index (LPI)
- Liner Shipping Connectivity index (LSCI)
- Ease of doing business indicators such as time delays in opening a business

Ghoneim et al. (2012) estimate a gravity model for Southern Mediterranean countries for one year for which NTMs are available (2001) for each country. They then simulate the effects of shallow (removal of tariffs) and of deep (removal of NTMS and moving towards the average LPI value of middle-income countries) integration in the region. They find that protection due to NTMs is greater than for tariffs and that transport costs and logistics are strongly trade reducing. A range of estimates corresponding to the parameter estimates across four sets of estimators suggest that deep integration would increase Tunisian imports by about 25 percent and for 14 percent from improvement in logistics.

Annex 2. Sectoral reforms in key services sectors

As early as the 11th Plan of Social and Economic Development (2007-2011), the government of Tunisia identified a number of strategic services sectors with a high growth potential. These were confirmed in the 12th Plan that was presented in 2010, just before the collapse of the old regime. They included: tourism, transport, ICT, professional services and health. Tunisia's competitiveness and level of openness in those sectors have been reviewed as early as 2007 in the World Bank *Tunisia Global Integration Report* (World Bank, 2007). This section analyzes the most recent trends in Tunisia's performance in those sectors, and suggests a number of reforms – both sectoral and horizontal – to foster growth and job creations.

However, two factors should incite the government to start looking further: First, in the course of regional trade negotiations, the government will also need to assess the performance and needed reforms in sectors where its partners have offensive interests. For example, sectors that commonly appear in the EU and US requests include: environmental services, financial services, express postal services, etc. Second, a number of services sectors that were previously closed due to existing vested interests at the highest level of the State could now be included in the analysis and negotiations. These sectors where rents predominated and that are in need for strong signals to investors could actually benefit most from opening to competition and/or regulatory convergence. These include: real estate, retail/distribution, and the hospitality sector. Such extension of the scope of Tunisia's strategic and offensive interests would also contribute to remedy the lack of diversification of Tunisia's services exports, and reduce the heavy reliance on tourism.

Suggested sectoral and horizontal reforms are primarily in the interest of the Tunisian economy and could be adopted on a unilateral basis. However, regional trade integration could offer the government an opportunity to converge with best regulatory practices. The government should then balance the costs and benefits of the regional approach. This analysis should include a careful weighing of:

- the costs v. the benefits of convergence (is the level of convergence appropriate? what are the needed adjustment to domestic regulation?);
- the costs v. the benefits of market access concessions (what are the offers and requests of the partner? what are the likely adjustment costs?);
- the benefits to be expected from technical assistance and capacity building transfers;
- the costs of non-participation to the agreement (risks of trade diversion if neighbors conclude the agreement first, premium to be paid for later accession) v. the benefits of participation (signal to the investors re- stability, predictability and security of the business environment, and potential gains in market shares).

Whatever the scenario that is adopted by the government, it should refrain from creating new distortions to trade or other forms of discrimination.

A.1 Sectoral Reforms

Since 2007, when a number of services sectors were first identified as "strategic" by the government, sectoral strategies have been designed and discussed, including with the assistance of the donors and leading consulting firms. Implementation, however, has often been lagging, with reforms being postponed or taking place at a slower pace than in competing neighboring countries. Governance issues in the previous regime and the dual shock that affected Tunisia (global economic crisis and revolution) could explain this delay. New opportunities created by the revolution and the re-opening of trade negotiations with strategic partners, such as the EU in the context of the ENP, should be incentives for the government to gear-up its reform agenda and fully harness the benefits of the work it has already done.

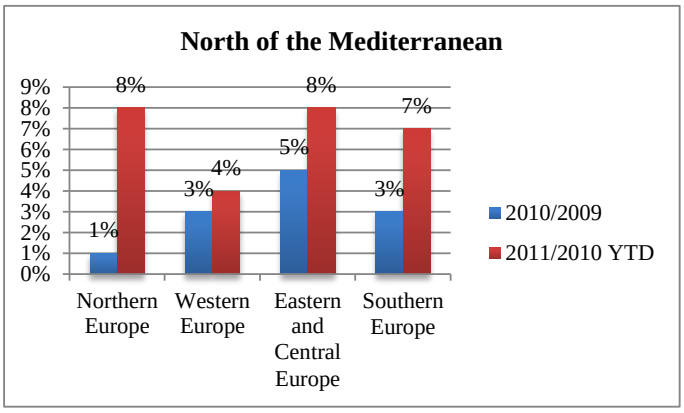
The following attempts to help the government in this task. First, it reviews the recent performance of Tunisia in the "strategic" sectors where the country has declared offensive interests. Second, it takes stock of the reforms that have been engaged. Third, it outlines the reforms that are still needed and suggests a plan of action for the short and medium terms. Finally, it assesses the potential role of regional trade integration in the achievement of the government's objectives.

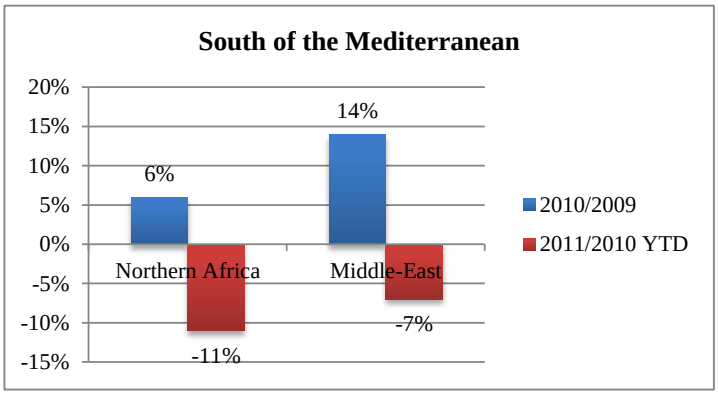
A. Tourism

Performance of the sector

Tourism is a main pillar of the Tunisian economy, contributing to 7.5 percent of the GDP and 350-400,000 jobs. With 4.8 million tourists in 2011, Tunisia captures 0.5 percent of global tourist flows, but only 0.2 percent of global tourism receipts, suggesting a lower than average amount of spending per tourist (USD 528 spent per tourist in 2011, compared to USD 825 in Turkey, for example). The Tunisian tourism industry was profoundly affected by the 2011 revolution, with over 2 million less tourist arrivals compared to 2010 (Roland Berger Strategy Consultants, 2012) and a 46 percent decline in the hotels output (World Bank, 2012). Data for 2012 suggests a rebound with one million additional tourists compared to 2011, i.e. 5.9 million international tourist arrivals, generating over 3 billion TND, compared to 2.4 billion the year before. Results achieved in 2013 were largely comparable to those achieved in 2010 (i.e. pre-revolution), with 6.3 million tourists (compared to 6.5 in 2010), 30,000 nights accommodation sold (compared to 35,000 in 2010), and 3.2 billion TND of receipts (compared to 3.5 billion in 2010). However, the crisis has increased the fragility of a sector that was in need of reforms and strategic re-positioning: tourism receipts started to decline as early as 2008. Moreover, a number of competitors in the region have benefited from trade diversion effects and put in place strategies to consolidate these gains; this is the case, for example, for Croatia, Spain, Portugal and France.

FIGURE A2.1 THE IMPACT ARAB SPRING ON TOURISM FLOWS (ANNUAL GROWTH RATE OF TOURIST ARRIVALS, % 2009-2011)

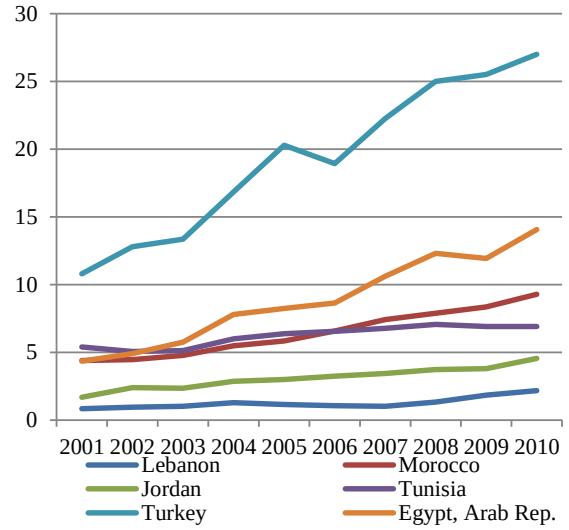




Source: Roland Berger, 2012

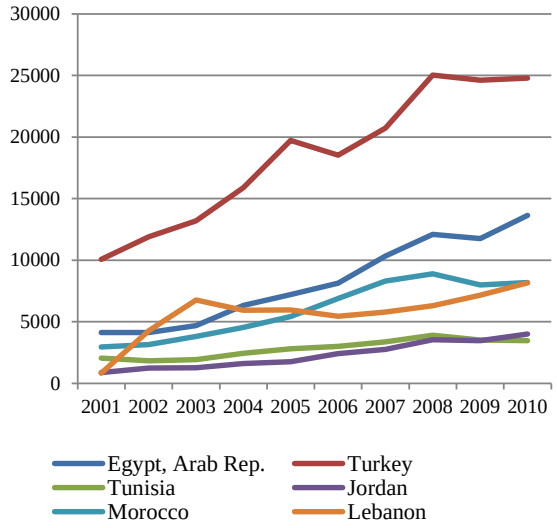
The difficulties facing the Tunisian tourism sector pre-dated the 2011 revolution. Figure A2.2 and Figure A2.3 reveal that the number of tourist arrivals and tourism receipts in Tunisia started to decline in 2008 when they both continued to grow in neighboring competitors. The 2008 crisis has a generalized negative impact on tourism receipts, but all the countries in the sample – with the exception of Tunisia – started to bounce back in 2010. Thus, the causes of the Tunisian tourism sector difficulties are to be found elsewhere. In the 1980's and 1990's, Tunisia heavily invested in the "sun, sand, and sea" model that was prevailing at the time. However, Tunisia missed the turn when markets shifted to a different model with the emergence of custom-made vacations. The Tunisian market remained in the hands of a few foreign operators offering "all-inclusive" packages when consumers now prefer to individually book their travel and hotel online. The Tunisian tourism value chain does not best serve the interests of Tunisia: foreign tour operators capture 40-45 percent of the receipts (compared to 10-14 percent in a performing country), hotels another 40-45 percent (compared to 35-40 percent), and spending outside the hotel in Tunisia represent only 1-2 percent of the receipts (compared to 10-15 percent) (World Bank, 2012). Moreover, Tunisia missed the turn of the "low-cost" travel by preserving the national airline from competition when competitors moved to "open-skies". The race to the bottom of the "all-inclusive" model resulted in a drop in return on investment and an increase of the sector's debt (to reach TND 3.8 billion in September 2011) and, ultimately, insolvability (only 30 percent of the credits are current) (World Bank, 2012).

FIGURE A2.2 INTERNATIONAL TOURIST ARRIVALS IN TUNISIA AND COMPETITORS (2001-2010, IN MILLION)



Source: World Development Indicators, 2012

FIGURE A2.3 TRAVEL SERVICES EXPORTS OF TUNISIA AND ITS MAIN COMPETITORS (2001-2010, MILLION USD)



Source: World Development Indicators, 2012

Needed reforms

In 2010, the government elaborated a tourism development strategy (Strategy 2016) that aimed to increase the number of tourist arrivals by 1 million a year to reach 10 million in 2016 and to double the amount of spending per tourist by 2020. As a result of the revolution, the implementation of this strategic plan has been put on hold. In 2012, the plan has been revised to reflect the changes prompted by the revolution and the prolongation of the economic crisis in Europe. This translated in the "Vision 3+1" that aims to: diversify the offer of services; improve the quality of the services and the level of training: improve the branding and the marketing of the Tunisian services offer: and modernize the sector. A "Programme de mise à niveau hotelier" has also been elaborated that should help local providers improving their services offer and bringing them to international standards.

For its main parts, the tourism strategy has remained unchanged. Fairly consensual, it should be implemented as soon as possible, to offer a fresh start to a profession that has been seriously affected by the crisis. The government identified a number of "quick wins" for implementation before the 2012 touristic season, and additional "conjunctural" and "structural" actions to be put in place between 2012-14.

TABLE A2.1 TOURISM STRATEGY 2016						
Axes	**Offer diversification and innovation**	**Promotion and marketing**	**Institutional framework**	**Financial restructuration**	**Tourism web compatibility**	**Air connections**
Main actions	Develop a quality charter	Adopt country-specific marketing strategies	Re-organize the institutional framework	Realize a financial audit of the hotels	Develop a new ONTT website	Develop partnerships with air companies with a dedicated support fund
	Encourage the promotion of innovation	Develop a new strategy around major events (international festival, etc.)	Put in place a dedicated structure to implement the strategy	Restore the financial sustainability of hotels (with light to severe problems)	Put in place the e-governance	Adopt a development plan for air transport
	Diversify the hospitality structures (villas, etc.)	Diversify the sources of funding (FDI, taxes, etc.)			Realize the "Archipel" referencing program	
	Diversify the tourism offer (culture, etc.)				Reinforce e-tourism training	
	Reform tourism training				Increase budget allocation	

Source: Roland Berger, 2012.

The priority should be the debt restructuring and the restoration of the financial health of the sector. The government received donors' support to realize an audit of the hotels and design a plan of action with an array of technical options that should be implemented as soon as possible. The implementation of the Strategy 2016 should not be delayed any further either, since it is important to strategically reposition the sector and change the Tunisian tourism business model, in order to attract more tourists and increase the level of spending per tourist. Tunisia will need to move out of the all-inclusive model and move up the value chain as well as target new markets such as North America and Asia.

Such restructuring will require adjustments and will have a short-term social cost: closing of hotels, restructuration of the ONTT and Tunisair, etc. The government should resist the temptation to postpone all the measures that are necessary to make the development of the tourism sector sustainable. For example, the 2012 revised strategy does not include a number of reforms that were priorities in 2010: reform of the ONTT and the institutional framework (including consultations with private sector), revision of the hotel classification norms, responsibility of hotel directors, open skies, revision of the investment code to modify incentives for innovative products. A number of regulatory barriers also remain, including for the attribution of licenses or foreign investment.

Trade integration could help the implementation of a number of actions listed in the strategy. Concessions could be made to liberalize and competition in some tourism services where rents remain (e.g. travel agencies, tour operators, etc.). Foreign investment should also be facilitated: the rent-economy of the previous regime profoundly affected the tourism sector (attribution of lands, licenses, or franchises), and regulatory burdens should be removed. Open skies agreements are, by essence, of a bilateral/regional nature. While these reforms could be taken unilaterally, Tunisia could benefit from foreign technical assistance and investment. Trade integration negotiations could also help breaking the dominant position of foreign tour operators that capture almost half of the Tunisian tourism value-added.

TABLE A2.2 SUMMARY: TOURISM					
What has been done		**What remains to be done**		**How it should be done**	
Background	State of play	Short term	Medium term	Unilateral	Bilateral / Regional
Tourism 2016 strategic study (2010)	Put on hold since 2010. Action plan revised in 2012	Implementation of the 2016 tourism strategy- Vision 3+1 -Creation of dedicated unit in Ministry -Institutional reform and revision of the roles of ONTT, Ministry and professional federations -Reform of the norms and classification of hotels and other establishments -Mise à niveau (upgrading) of hotel infrastructure and personnel -Put in place marketing and web promotion strategy	Implementation of the 2016 tourism strategy – Vision 3+1 -Diversify the tourism offer (hospitality and activities) and revise the system of incentives -Diversify origin of tourists	Mostly unilateral but could be used as bargaining chip in the trade negotiations – with TA for main reforms	Reduction of regulatory barriers to foreign investment, land ownership, licenses and franchises, tourism activities (transfers, travel agencies, etc.)
Financial audit of the hotels	Done early 2012	Financial restructuration of the sector -Creation of a structure to manage the debt and revision of relevant financial regulations and bankruptcy laws -Closure of non salvable hotels -Attract new investors	Financial restructuration	With help of main donors – TA and funding	
Open skies negotiations to be concluded by the end of 2010	Put on hold since the revolution. Commitment to re-open the negotiations in the first semester of 2012	Conclusion of the open skies negotiations with progressive opening of Tunisian sky	Restructuration of Tunisair to exploit new markets	Regulatory convergence with partners – to benefit from twinnings and TA/capacity building	

B. Air Transport

Performance of the sector

As illustrated by Figure A2.2 and Figure A2.3 above, the number of tourist arrivals and travel exports have continuously declined since 2008. Tunisia has been badly hit by the dual shock of the economic crisis and the revolution, but was already poorly performing before, with growth rates lower than other countries in the region. Here again, the crises only aggravated a pre-existing condition.

TABLE A2.3 ANALYSIS OF AIR TRAFFIC GROWTH (ACTUAL PASSENGERS)

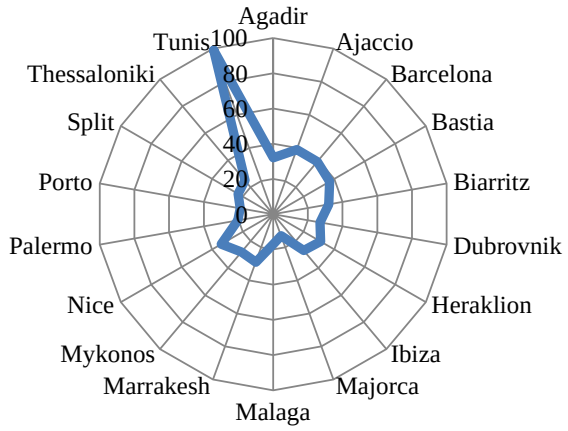
		2005-2010	2005-2011
International scheduled passengers	Growth (%)	36.49%	19.47%
	Annualized	6.60%	3.43%
International charter passengers	Growth (%)	-9.32%	-52.09%
	Annualized	-1.69%	-9.27%
Total international passengers	Growth (%)	8.58%	-24.14%
	Annualized	1.72%	-3.59%
Domestic passengers	Growth (%)	-3.99%	9.08%
	Annualized	-0.56%	1.80%
Total passengers	Growth (%)	7.96%	-22.51%
	Annualized	1.61%	-3.36%

Source: World Bank (2012) based on DGAC Feb. 2012 data

The revolution translated into a 30 percent decline in passenger arrivals in 2011 (-50 percent for charter flights). However, the first five months of 2012 show some signs of recovery, with a 50 percent increase in passenger arrivals (compared to the same period in 2011), and a 30 percent increase in total passenger flows. During the first three months of 2012, Tunisair also increased its results by more than 40 percent compared to the same period in 2011.

The decline in charter passengers translates the crisis of the "all-inclusive" tourism model. The slow growth of scheduled passengers is the result of the decreasing attractiveness of Tunisia as a tourist destination, but also of the lack of competition on its market and the predominance of Tunisair and its subsidy Sevenair that still represent 63 percent of the market shares; Air France and Alitalia are the national company's main competitors with respectively 14 percent and 5 percent of the market shares. For international scheduled passengers, Tunisia remains an expensive destination compared to other competing destinations in the Mediterranean (see Figure A2.4).

FIGURE A2.4 LOWEST AVAILABLE FARE OUT OF PARIS (ALL AIRPORTS) (ONE-WAY FARE, SCHEDULED FLIGHTS ONLY, IN EURO)



Source: Multiple websites, for period 2012-13, searched in June 2012

Needed reforms

The performance of transport services largely depends on the performance of the tourism sector, and vice versa. Thus, the restructuration of the tourism sector and the diversification of the tourism offer out of the all-inclusive model should allow a faster growth of the traffic of international scheduled passengers. If the implementation of the tourism strategy is successful, the traffic of international charter passengers should also continue to decline.

This, however, will only happen if reforms of the air transport sector are simultaneously put in place to increase the number of available seats and destinations as well as reduce prices. The tourism strategy will not succeed unless the Tunisian air transport market is further opened to competition. Similarly, other activities such as off-shoring of business services, and any kind of international transactions, are hampered by the high cost and the limited offer of air transport out of/to Tunisia. Liberalization of air transport in other countries has proven to have a significant impact on travel and economic activity at large.

In December 2008, the EU Council adopted a Decision to authorize the Commission to open negotiations of an open skies agreement with Tunisia. In 2010, Tunisia committed to conclude the agreement with the EU by the end of 2011, and started to design a plan for regulatory convergence. As a result of the revolution, however, the negotiations were postponed. While the negotiations resumed in 2012, there is strong opposition to the process due to the fragile financial situation of the national company Tunisair. Tour operators and charter companies also opposed the process in recent consultations. However, the cost of maintaining a closed air transport are extremely high for a country that is highly dependent on tourism and aims to move to a services economy where mobility is essential. Thus, it is important to shortly conclude the negotiations of an open skies agreement with the EU, with due consideration for the Tunisair restructuration and downsizing needs and a progressive liberalization of all Tunisian destinations. Options could include a phasing of the Tunisian sky's opening, starting with the Enfidah airport that could receive tourists for the Hammamet region.

Liberalization of traffic with Europe (the prime market for Tunisia, with two thirds of the traffic) could be a first step and supplemented by agreements with other African countries (Yamoussoukro Decision), Arab countries (Arab League Open Skies Agreement) and other individual countries (US, China, Russia, etc.) through liberal bilateral agreements. For most agreements, liberalization mostly deals with the removal of traffic restrictions (e.g. free access, free fares, liberty in capacity, free

designation of carrier), but some liberalization frameworks (e.g. Yamoussoukro Decision) also include ownership and control liberalization. Convergence with the relevant EU regulatory framework includes some 28 European regulations or directives that cover safety, air traffic management, denied boarding, environmental and noise restrictions, etc. This lengthy process will require technical assistance that should be part of the negotiation deal and be prepared ahead of time. Donors could also help designing and funding adjustment plans.

Open skies agreements potentially have a positive impact on the liberalizing markets and important spillover effects on other sectors' activities and employment (tourism and beyond). Traffic growth subsequent to liberalization of air services agreements between countries typically averaged between 12 percent and 35 percent, significantly greater than during years preceding liberalization. In a number of situations, growth exceeded 50 percent, and in some cases reached almost 100 percent of the pre-liberalization rates. The creation of the Single European Aviation Market in 1993 led to an average annual growth rate in traffic between 1995 and 2004 that was almost double the rate of growth in the years 1990 to 1994. This produced about 1.4 million new jobs (InterVISTAS, 2006). Table A2.4 below shows the significant impact of the EU-Morocco open skies agreement was implemented from 2006 onwards: 24,000 jobs created, an average 7 percent fare reduction, and MAD 1.5 billion contribution to GDP. The average growth rate of air traffic in Morocco between 2005 and 2010 has been almost three times larger than the one for Tunisia (15 percent compared to 6 percent).

TABLE A2.4 IMPACTS OF AIR LIBERALIZATION IN MOROCCO

	Market Access Liberalization	**Ownership and Control Liberalization**	**Combined Liberalization**
Increase in international traffic (passengers and % increase)	967,000	2,479,000	3,446,000
	+9%	+24%	+33%
Reduction in average fare	7%	19%	26%
Increase in consumer surplus (MAD)	548 Million	990 Million	1,538 Million
Employment (FTEs)			
Aviation sector (including indirect impact)	2,400	6,000	8,400
Tourism (including indirect impact)	13,100	41,600	54,700
Catalytic impact	8,500	21,200	29,700
Total employment impact	24,000	68,800	92,800
Gross domestic product (GDP, MAD)	1,471 Million	4,236 Million	5,707 Million

Source: Impact of International Air Service Liberalization on Morocco, InterVISTAS (2009)

TABLE A2.5 SUMMARY: AIR TRANSPORT					
What has been done		**What remains to be done**		**How it should be done**	
Background	State of play	Short term	Medium term	Unilateral	Bilateral / Regional
Official negotiations of EU-TUN open skies agreement started in December 2008	Commitment to conclude before the end of 2011, but negotiations suspended due to the revolution; Negotiations resumed but still in progress	-Conclude the open skies negotiations with the EU -Adopt a plan for regulatory convergence -Adopt a plan for restructuration and adaptation of Tunisair and tourism sector to new competitive environment	Launch negotiations with other partners	-Regulatory convergence with TA from EU -Tunisair and tourism sector adjustment plan with TA from donors	-Open skies agreement(s) -Other agreements with African countries (Yamoussoukro Decision), Arab League, and other bilaterals (US, etc.)

C. Telecommunications and Internet

Performance of the sector

Driven by the objective of providing cost and quality efficient telecommunication services to people, the Tunisian government has massively invested in infrastructure, network coverage and capacity for over a decade. It also promoted the dissemination of new technologies, including through teaching at school and university, with an objective in the 12th Plan (2010) of 9,000 graduates in engineering (included 1/3rd in ICT) per year – compared to 4,000 at present, and the creation of R&D centers dedicated to ICT. The 12th Plan also aimed at providing high-speed Internet access to one million subscribers and reaching out to 50 percent of the Tunisian households.

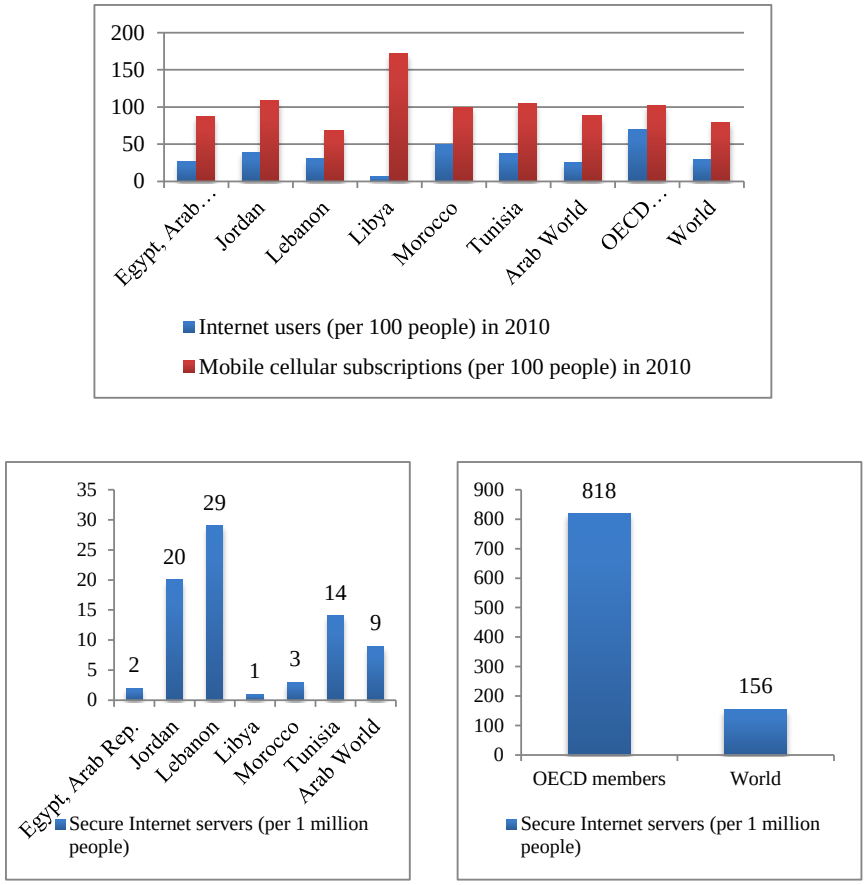
The telecommunications market has been progressively liberalized. At the end of 2005, Tunisie Télécom was partially privatized (35 percent of capital), with a foreign participation of an Emirati consortium of over 3 billion TND – the largest historic FDI in Tunisia. In 2012, the sector was subject to another major transaction, with the acquisition of 15 percent of the Tunisiana stocks (MTND 636,9) by Qatar Telecom. With the attribution of mobile licenses to Tunisiana and Orange Tunisie, competition has increased, and Tunisia now has a mobile phone penetration rate exceeding 100 percent. There is healthy competition on this segment of the market, especially in the prepaid mobile market, which represents a large share of the overall sectoral revenues. However, a number of problems remain, and the market is still subject to competitive distortions, affecting performance on international calls and the Internet in particular.

Until early 2014, Tunisie Télécom has been a *de facto* monopoly on international connectivity through the control of all the country's landing stations, and a dominant operator in the area of domestic backbone connectivity. Until 2013, all international traffic had to be routed through the Agence Tunisienne de l'Internet (ATI) that applies a 30 percent markup. This monopoly was suppressed early 2013, when Tunisie Télécom offered to open access to the Bizerte landing station. In 2014, the completion of the cable DIDON offered Tunisiana and Orange Tunisia the right to operate their independent gateway. As a result, outgoing communication prices witnessed a good reduction, but incoming international calls remain too high: 11 times higher than in Turkey, for example). There is still margin for improvement: Turkey has 4 providers of international bandwidth, Morocco 3, and Eastern European countries have on average 10 providers. The higher cost of international connectivity adversely affects the country's competitiveness and the consumers at large. Tunisia ranks

among the most expensive countries in the world for the cost of international communications, rivaling with countries like Myanmar of the Republic of Congo. This contributes to leaving Tunisia aside the major global value chains, with international communications traffic half that of the average for Maghreb, seven times smaller than average in MENA, and three times smaller than for Eastern European countries (World Bank, 2012b).

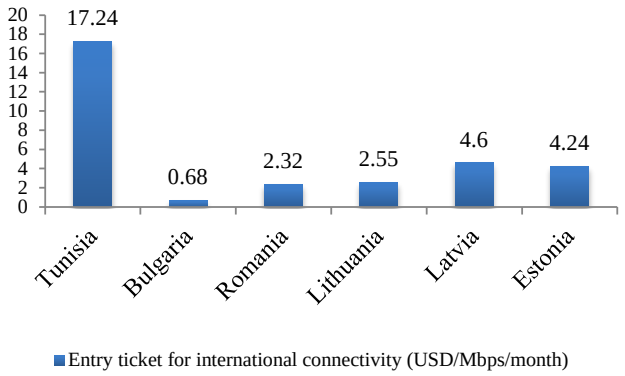
Introducing competition in the Internet could help reducing prices and restoring confidence in the protection of consumers' rights (confidentiality and personal data) – indeed, ATI was identified by the population as a tool for censorship and repression in the old regime (World Bank, 2012b). Currently, the Internet Service Providers (ISPs) need to rely on the infrastructure of a licensed telecommunications operator; three of them have been acquired by licensed operators and are vertically integrated. The Internet penetration rate remains very low in the country (see Figure A2.5).

FIGURE A2.5 A GOOD PERFORMANCE FOR MOBILE PHONE, A POOR PERFORMANCE FOR INTERNET



Source: World Development Indicators, World Bank, 2011.

FIGURE A2.6 HIGH COSTS FOR INTERNATIONAL CONNECTIVITY



Source: World Bank, 2012

Needed reforms

Success in the opening of the mobile phone market should drive opening efforts in other segments of the telecommunications market, namely the international segment and the Internet where important rents remain.

As part of a recent budget support program, the government of Tunisia removed early 2013 the obligation to route international communications through the ATI, and opened the VoIP. These reforms were part of a set of recommendations including: the amendment of the Tunisian Telecommunications Code (see World Bank, 2012b) to remove the requirement to route international communications through the ATI (and even possibly suppress or reduce the prerogatives of ATI), allow holders of alternative infrastructure to lease capacity, allow alternative infrastructure operators to offer cross-border connectivity, and establish an open-access policy and regulation with respect to the landing stations of Tunisie Télécom. Additional licenses should also be awarded. In practice, competition has not adjusted to the new regulatory framework yet, and prices remain high. Needed reforms include:

- implement number portability, per INT Decision;
- introduce and implement bitstream;
- develop the regulatory reform to tackle dominant behavior;
- develop an action plan for universal access to broadband;
- award new licenses for broadband operators; award VNOs and MVNOw licenses with the right to operate an international gateway;
- oblige STEG to lease access to its fiber network.

Benefits to be expected from such reforms are high (World Bank, 2012b): prices of international calls would be expected to drop by up to 75 percent and the volume of calls per capita to increase 4 times; the price of IP international bandwidth would drop by 30 percent in the short term and up to 60 percent in the medium term (i.e.2013-14); the consumer welfare benefit could reach USD 72 million a year. With regard Internet access, a drop in prices and an increase in bandwidth per capita would improve the country's connectivity and competitiveness. Risks of network failure would be reduced. Activities such as off-shoring and e-business would be boosted and create new opportunities for Tunisia. Also, the reform is likely to attract foreign investment in backbone and international infrastructure.

The dominant incumbent operator, Tunisie Télécom, is likely to bear most of the adjustment costs of the reform. At the same time, social tensions have affected the company in the aftermath of the revolution. A restructuration of the company is necessary to reduce the dependence on the rents

allowed by the de facto monopoly on international calls. Tunisie Télécom has 7,000 employees compared to 2,000 in Tunisiana, which is in good financial health. Tunisia could benefit from the experience of other countries where similar restructuration was successful: for example, in Turkey, the liberalization of the international segment resulted in a drop by 20 percent of the incumbent operator's output, but it prompted investment in new generation equipment that created new sources of income; similarly, in the UK, British Telecom used to source 40 percent of its income in the international calls segment – after the liberalization of the market, this share dropped to 8 percent, but total income of the company ultimately increased (World Bank, 2012b). The Tunisian government should implement its decision to privatize Tunisie Télécom through the sale of a share of the capital with management control to a strategic telecommunications operator.

Regional integration offers interesting perspectives for the creation of both soft and hard networks. For example, the introduction of competition could allow Tunisia to offer the Algeria to Libya connectivity (World Bank, 2012b). Integration in the Maghreb region is lagging. Telecommunication services are a clear offensive interest of Tunisian trading partners, including the EU. The *acquis communautaire* in telecommunications includes a number of Directives from the Council and the Commission, including Directive 96/19 that introduced full competition for services and infrastructure, leading to the liberalization of the EU market. Box A2.1 below provides an example of provisions pertaining to telecommunications in the EU-Chile association agreement. A number of the provisions would pose problems for Tunisia in the current state of competition on its market, e.g. the prevention of anti-competitive cross-subsidization.

BOX A2.1 TELECOMMUNICATION SERVICES IN THE EU-CHILE ASSOCIATION AGREEMENT (SIGNED IN 2002, ENTERED IN FORCE IN 2003)

With regard to telecommunication services, the Association Agreement goes considerably beyond earlier EU FTAs and reflects the 1996 GATS Telecommunications Reference Paper leading to the Fourth Protocol to the GATS, that went came into force in 1998. Article 110 states that telecommunications regulatory agencies will be both independent of any supplier of basic telecommunications services as well as non-discriminatory. In the event that licenses are required, the parties agree to make the terms and conditions and the expected date of a decision publicly available (Art. 111.1). Alternatively, if a request for a license is rejected, the reasons will be provided to the applicant if requested (111.2).'Appropriate measures shall be maintained' to prevent anti-competitive practices among large telecommunication service-providers, including anti-competitive cross-subsidization (Art. 112.2). Public suppliers of telecommunication transport networks or services must offer interconnection to other suppliers that are not discriminatory in terms of their rates, conditions and quality (Art. 113.2). Interconnection procedures and agreements must be publicly available (Art. 113.4). The Association Agreement grants each party the right to specify its universal service obligations as long as the provisions are 'transparent, objective and non-discriminatory', as well as 'neutral with respect to competition and no more burdensome than necessary' (Article 115.2).

Source: Ullrich, 2004

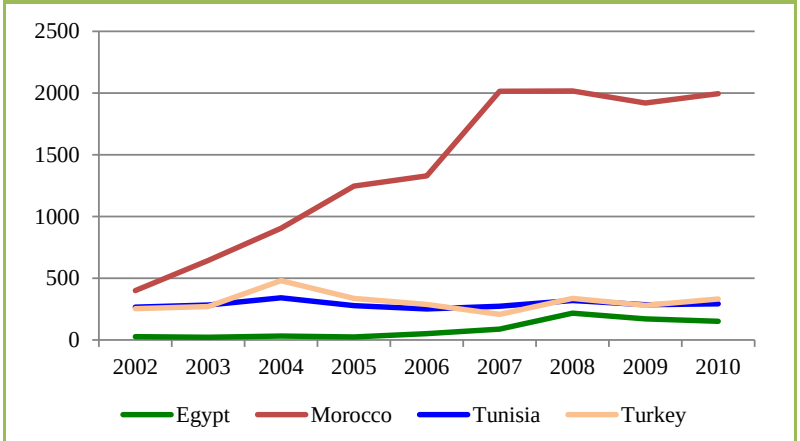
TABLE A2.6 SUMMARY: TELECOMMUNICATIONS					
What has been done		**What remains to be done**		**How it should be done**	
Background	State of play	Short term	Medium term	Unilateral	Bilateral / Regional
-Creation and reform of INT in 2001, 2002, and 2008 -INT study on the state of competition on the Tunisian telecoms market -MoU between INT and Conseil de la Concurrence -Partial privatization of Tunisie Télécom (2006) -Attribution of new licenses (GSM, 3G and Global) -Investment plans in infrastructure, education and technology centers -New Law 2013-10 of 12 April 2013 modifying the Code of Telecommunications (reinforcement of the INT prerogatives, improvement of competition and clarification of the role of actors on the market, infrastructure capacity leasing) -Opening of VoIP (Decree 2012-2638) -Suppression of the requirement to route international traffic through the ATI -Opening access policy to the landing stations of Tunisie Télécom	-High penetration rate and lower prices on mobile -Low competition, high prices for international calls and low penetration rates for the Internet -Suppression of Internet access controls after the revolution -Objectives of the 12th Plan not reached -Remaining poor broadband access/competition on the market and high prices -Opening of the Bizerte landing station only -Remaining legal uncertainty on routing of international traffic	--Open access beyond Bizerte landing station -Clarify regulatory framework for international routing-Portability of phone numbers -Legal/regulatory regime for VNO and FSI	-Attribute new licenses on the basis of the study on the state of competition (new Tunisiana 3G license awarded early 2012) -Restructuration of Tunisie Télécom (positioning on new market segments) -Review the respective competences of the different authorities -Prepare development of ultra-broadband	Most of the measures could be taken on a unilateral basis	-Increasing connectivity with neighbors (hard and soft networks) -Further opening to competition for services and infrastructure with major partners – including removal of limits on foreign equity -Suppression of non-competitive practices (e.g. cross-subsidization)

D. Professional services

Performance of the sector

Professional services include a number of specialized and usually high-skill activities such as legal, engineering, architectural, accounting, auditing, consulting, and medical services. The sector is characterized in Tunisia by the good quality of the services rendered (almost comparable to European standards, but at a lower price) and strict barriers to entry. Figure A2.7 suggests that Tunisian exports of business services (a larger category that includes professional services) have stagnated for the last decade, when they grew four-fold in Morocco. Trade in professional services is hard to measure, however, and export performance significantly varies from sector to sector.

FIGURE A2.7 A MODEST GROWTH OF BUSINESS SERVICES EXPORTS (BUSINESS SERVICES EXPORTS, MILLION USD, 2002-10)



Source: WTO, 2012

The best performing Tunisian professional sector probably is engineering. For over two decades, Tunisian engineering companies have exported their services, mostly to Africa, but also to the rest of the world, including Europe, with a reputation of excellence. In 2012, SCET Tunisie has ongoing activities in more than 30 countries in Europe, Maghreb and Sub-Saharan Africa – exports represent 70 percent of the company's income. COMETE is present in over 20 countries all over the world (Europe, Maghreb, Sub-Saharan Africa, Saudi Arabia, Pakistan). STUDI exports 90 percent of its services, mostly to African countries (60 percent of its activity), and the volume of its projects increased ten-fold in the past five years. This sector is also the most open of all professional services, and the profession is leading in mutual recognition agreements. The government of Tunisia is massively investing in education, although curricula still need to adjust to the needs of a modern profession (languages, new disciplines, etc.).

Accounting services are also rapidly growing and offer new prospects of business and exports linked to off-shoring. International trade plays an important role in the profession due to the predominance of the so-called "big four" (KPMG, PwC, E&Y, and Deloitte). All four are present in Tunisia although, due to nationality requirements and limitations on foreign equity and partnership, all four are Tunisian. The local offices nonetheless benefit from the reputation and technology/knowledge transfers of their affiliation networks, and capture most of the market of foreign companies established in Tunisia. For the rest, Tunisian firms are usually too small to trade: the country counts around 306 firms registered at the Order with close to 800 accountants.

Legal services are probably the least open of all professions, with strict entry rules and nationality requirements. Only one foreign law firm could establish in Tunisia (Gide Loyrette Nouel), and encountered a number of difficulties with local competitors, authorized only to provide "legal counseling". By contrast, all the major international law firms are present in Morocco where the market is more open. As a result, Tunisian files are treated from abroad (typically a Tunisian desk at the Paris office) and local partners are used for representation in court or specific domestic law counseling. Qualification requirements have recently been changed to limit the flow of new entrants and improve the quality of training.

Needed reforms

Table A2.7 analyses the different barriers to trade in professional services that are imposed in Tunisia. It suggests a high level of protection, putting Tunisia at the top of the restrictiveness rankings for the MENA region (Borchert & al., 2010). This causes major prejudice to the profession, since intra-firm trade represents a large part of business, and jobs are created abroad instead of locally. Multilateral companies usually resort to global accounting or law firms in order to have the guarantee of a constant quality of service around the world and maintain privileged relationships with a particular service provider (confidentiality and liability concerns dictate the choice of the service provider rather than the price). Therefore, Tunisia should open its professions to competition. The first step would be to replace the conditions of nationality by objective and non-discriminatory qualification requirements. As early as 2008, the World Bank identified a number of reforms to unleash the potential of the professions (World Bank, 2008). In 2010, the government of Tunisia also produced a regulatory audit of the professions and identified flaws in a legal framework that date back from several decades. It was also suggested to undertake the audit of the professional orders in order to determine whether basic competition rules applied. However, except for training/education, no reforms took place. On the contrary, once the regulatory audit revealed grey areas and flaws that could threaten the rent system, the government was tempted to impose even more restrictions (e.g. by regulating the “legal counsel” profession where foreigners could still practice). In light of the role played by the professions (and the lawyers in particular) during the revolution, the government will probably continue to protect their privileges.

TABLE A2.7 BARRIERS TO TRADE IN PROFESSIONAL SERVICES (INCLUDING MEDICAL)				
Type of restriction	**Medical**	**Engineering, architecture**	**Accounting, auditing, bookkeeping, and taxation**	**Legal services**
Form of establishment	Clinic, hospital, individual practice	Bureau d'études or individual practice	Cabinet d'audit	Société d'avocats or individual practice
Foreign partnership/association/joint venture	Authorized, restrictions apply	Authorized, restrictions apply	Prohibited	Prohibited – exception for legal counsel
Investment and ownership by foreign professionals	Authorized, restrictions apply	Authorized, restrictions apply	Prohibited	Prohibited – exception for legal counsel
Investment and ownership by non-professional investors	Authorized, restrictions apply	Authorized, restrictions apply	Prohibited	Prohibited – exception for legal counsel
Nationality/citizenship requirements	Must be Tunisian	Must be Tunisian	Tunisian for at least 5 years	Tunisian for at least 5 years
Residency and local presence	No	No	No	Must be a resident
Quotas/economic needs tests on the number of professionals and firms	Numerous clauses, e.g. pharmacy/ inhabitants	No, but for initial selection	No, but for initial selection	For some professions: e.g. notaries
Licensing and accreditation of foreign professionals	Possible recognition of foreign diplomas	Possible recognition of foreign diplomas	Possible recognition of foreign diplomas	Possible recognition of foreign diplomas
Licensing and accreditation of domestic professionals	Inscription on the Tableau de l'Ordre des médecins	Inscription on the Tableau de l'Ordre des architectes or ingénieurs	Inscription on the Tableau de la Compagnie des experts comptables	Inscription on the Tableau des avocats
Movement of people	Usual visa conditions, exceptional authorizations to practice (e.g. training)	Usual visa conditions, exceptional authorizations to practice (up to a year)	Usual visa conditions	Usual visa conditions, some bilateral reciprocity agreements
Activities reserved by law to the profession	Yes, practice of medicine	Yes, e.g. architect mandatory for most buildings	Yes, e.g. audit	Yes, e.g. notary acts, pleading in courts
Multidisciplinary practices	Authorized, restrictions apply	Authorized, restrictions apply	Authorized, restrictions apply	Prohibited, some exceptions
Advertising, marketing and solicitation	Prohibited for doctors, authorized for clinics with restrictions	Authorized, restrictions apply	Authorized, restrictions apply	Prohibited
Fee setting	Yes, distinction between public and private	For some activities only: e.g. public buildings	For auditing only	For some activities only: e.g. notaries

Note: This table does not pretend to be exhaustive: it gives an idea of potential regulatory obstacles to trade; the table also does not address the question of the adequateness of the domestic regulations: some are fully justified to ensure the quality of the service, and some might be more restrictive than necessary to achieve this end.
Source: World Bank, 2007

Regional trade integration will most likely play an important role in the challenge of the professional rents. Both the US and EU have strong offensive interests in this sector. Box A2.2 provides an example of the concessions made by Morocco in the US-Morocco FTA that was concluded in 2004. Among others, this agreement imposes the above-suggested reform, i.e. the replacement of nationality conditions by objective and non-discriminatory qualification requirements. It also encourages mutual recognition agreements and temporary licensing. The same concessions will probably be made in the agreement with the EU, suggesting that they will also be expected from Tunisia.

Mode 4 is another important dimension of professional services trade: it is common that companies move across with their lawyers to conclude M&A deals or supervise projects abroad. The facilitation of such temporary movements is essential to encourage investment.

BOX A2.2 PROVISIONS OF THE US-MOROCCO FTA ON PROFESSIONAL SERVICES

Annex 11-B
Development of Professional Standards

1. The Parties shall encourage the relevant bodies in their respective territories to develop mutually acceptable standards and criteria for licensing and certification of professional service suppliers and to provide recommendations on mutual recognition to the Joint Committee.

2. The standards and criteria referred to in paragraph 1 may be developed with regard to the following matters:

(a) education – accreditation of schools or academic programs;
(b) examinations – qualifying examinations for licensing;
(c) experience – length and nature of experience required for licensing;
(d) conduct and ethics – standards of professional conduct and the nature of disciplinary action for non-conformity with those standards;
(e) professional development and re-certification – continuing education and ongoing requirements to maintain professional certification;
(f) scope of practice – extent of, or limitations on, permissible activities;
(g) local knowledge – requirements for knowledge of such matters as local laws, regulations, language, geography, or climate; and
(h) consumer protection – including alternatives to residency requirements, such as bonding, professional liability insurance, and client restitution funds, to provide for the protection of consumers.

3. On receipt of a recommendation referred to in paragraph 1, the Joint Committee shall review the recommendation within a reasonable period to determine whether it is consistent with this Agreement. Based on the Joint Committee's review, each Party shall encourage its respective competent authorities, where appropriate, to implement the recommendation within a mutually agreed time.

Temporary Licensing

4. Where the Parties agree, each Party shall encourage the relevant bodies in its territory to develop procedures for the temporary licensing of professional service suppliers of the other Party.

Review

5. At least once every three years, or annually at either Party's request, the Joint Committee shall review the implementation of this Annex

Source: US-Morocco Free-Trade Agreement 2004

TABLE A2.8 SUMMARY: PROFESSIONAL SERVICES					
What has been done		**What remains to be done**		**How it should be done**	
Background	State of play	Short term	Medium term	Unilateral	Bilateral / Regional
-Regulatory diagnostic of the professions performed in 2010 -Reform of the qualification/training requirements for lawyers -Request for an audit of the professional orders with regard competition practice	-Diagnostic completed, but temptation to introduce more restrictive barriers to entry in so-far unregulated activities -Draft reforms to modernize the regulatory framework of the professions, but not fully implemented -Initiation of a study of the accounting profession, but no formal audit of all the orders	-Replacement of the nationality conditions by objective and non-discriminatory qualification requirements -Authorization of multi-disciplinary practice	-Modernization of the regulatory framework: e.g. rules on advertising	Most reforms could be taken unilaterally, in particular as it pertains to the modernization of the regulatory framework	-Opening of the professions by removing discriminations and limitations on certain forms of establishment or partnership -Negotiation of mutual recognition agreements

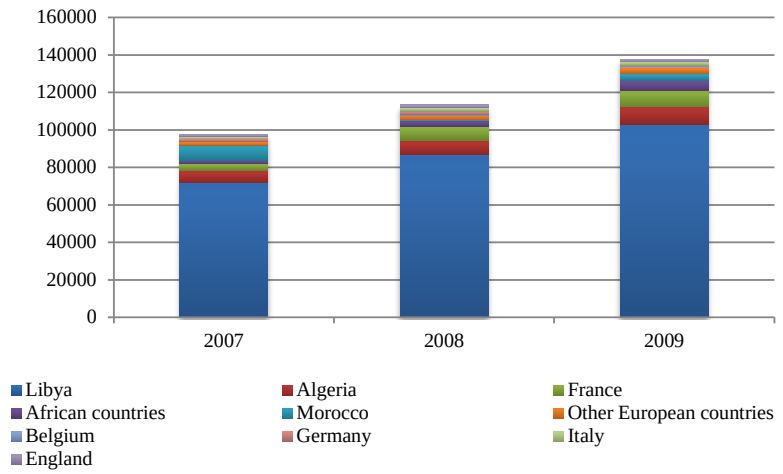
E. Health services

Performance of the sector

Healthcare travel (so-called "medical tourism") is a fast-growing high-potential sector. Tunisia has a long tradition in this field, but the number of competitors attracted by a multi-billion market has increased, boosted by the dissemination of technologies, the reduction of the cost of travel, and an increasing global demand. Asia has quickly emerged has a leader in the field, with more than one million tourists treated in Thailand each year, close to 700,000 in Singapore, and around 300-400,000 in India and Malaysia. In the MENA region, Jordan is the leading destination for healthcare travelers, with 250,000 foreign patients, compared to 150-200,000 for Tunisia. Statistics about the actual importance and prospects of healthcare travel vary a lot, however, due to inconsistent definitions and a lack of precise statistics on services trade. For example, some countries include "wellness tourism" (spa and thalassotherapy treatments) in medical tourism when it clearly is a distinct category of travel. With regard statistics, most countries do not disaggregate the data beyond "travel services" in the balance of payment; by contrast, some countries have very precise measures of the number of patients, amount of spending per patient, etc. In the MENA region, Morocco has introduced data on foreign patients in the National Health Accounts.

During the past decade, the number of healthcare travelers has grown ten-fold in Tunisia. Libya continues to provide the lion share of foreign patients to Tunisia, although there is a trend towards geographical diversification (see Figure A2.8). Tunisia also remains the second largest exporter of thalassotherapy treatments in the world. However, healthcare travel is even more sensitive to political instability than regular travel; as a result, in 2011, the demand for health services dropped by 60 percent in Tunisia. In a highly competitive market, Tunisia will need to swiftly put in place a strategy to bounce back and increase its market Reputation is key among the determinants of success of any healthcare travel strategy (see Table A2.1). Reputation is not built around healthcare travel only, however: the country should be able to offer a bundle of health services to appear as a reputed center of medical excellence. As such, Tunisia should attempt to develop other forms of trade in health services. For instance, medical residences for foreign retirees have boomed in competing countries: these have proven to generate important income and spillover effects (e.g. better care of elders) for hosting countries. Tunisia has remained closed to this market and established a number of barriers to entry, including for the attribution of lands. Telemedicine and diagnostics are other types of health services with high trade potential that relate to another "strategic" sector: off-shoring. For example, Tunisia could become the destination of outsourced radiology or other medical diagnostic services that are lacking in Europe due to staff shortages. Similarly, medical research is also subject to outsourcing.

FIGURE A2.8 EVOLUTION OF HEALTHCARE TRAVEL IN TUNISIA (BY COUNTRY OF ORIGIN, 2007-09)



Source: Lakhoua, 2012

Beyond services, reputation in the health sector is the sum of efforts to project the country in all health-related activities, including industries (e.g. generics).

Needed reforms

Table A2.9 presents the key determinants of success in healthcare travel. It suggests that a number of reforms need to be engaged in order to promote Tunisian health services exports. In 2007, the World Bank *Tunisia Global Integration Report* already made a precise analysis of the Tunisian health tourism potential, point at its strengths, weaknesses, opportunities, and threats (SWOT analysis). It recommended a better coordination of the authorities (tourism, health, commerce) and the elaboration of a strategy to develop the sector. Terms of reference were drafted, but procurement issues and other circumstances delayed the process. Similarly, as part of a technical assistance program, the INS and the Central Bank of Tunisia started to collect more precise data on medical tourism. However, it is unclear that much progress has been made. It is now critical to move fast on this agenda and design a clear sectoral strategy.

TABLE A2.9 KEY DETERMINANTS OF HEALTHCARE TRAVEL PERFORMANCE		
	Determinants associated with the Health sector and *the Tourism/Transport sector*	**Tunisian performance**
Human capital	• Sufficient high-quality medical and paramedical professionals, including well-known international specialists (either nationals or foreigners practicing in the host country, even on a temporary basis) • Specialization in critical areas with high demand and potential for healthcare travel • Language skills of doctors, and even more importantly, paramedics and administrative/hosting staff • *General requirements for hospitality and tourism*	• High-quality doctors and recent reform of the qualification/training requirements for nurses, but nationality requirements exclude the practice of well-known foreign specialists • No strategic planning, specialization in cosmetic surgery should be reviewed – exclusion of some segments (medical residences) with high potential • Unsatisfactory – need reform of education curricula and promotion of temporary movement of staff • Insufficient compared to e.g. Asia
Infrastructure	• Sufficient capacities (number of beds) for national and foreign patients • Large hospitals or clinics able to afford the latest technology (scale matters) and attract investment • Respect of international standards by hospitals and clinics • *Frequent, affordable, and quality liaisons (air in particular) with major target foreign markets* • *Within country frequent, affordable and quality connections (roads, air, including transfers to hotels and care centers)* • *Quality hospitality infrastructure (hotels meeting international standards) for patients and accompanying persons*	• Low occupation rates in private clinics • Projects of large scale hospitals with foreign participation, but still to be implemented – Tunisian clinics do not have the critical size to attract important foreign investment • Poor system of certification and accreditation that is in the process of being revised • Poor level of competition in the absence of open skies agreements, translating into high prices and infrequent flights – charter model not suitable to medical tourism • No competition on domestic segments and poor infrastructure • Tourism strategy to be implemented, but essential aspects pertaining to quality (e.g. hotels classification) have been postponed
Legal/regulatory environment	• Clear professional standards and code of ethics to guarantee the quality of the care (high reputational risk for malpractice), the confidentiality of medical files, the avoidance of misleading information and advertising, • Visas easily and quickly available for the patients, their companions, and medical staff (foreign doctors – mode 4 of the GATS) • Investment and business-friendly environment to facilitate joint-ventures and green field investments in hospitals and care centers (mode 3 of the GATS) • Registration and certification of the hospitals and clinics to meet international standards (e.g. JCI), including voluntary standards on quality, environmental sustainability, management, etc. (e.g. ISO)	• Absent – law regulating medical tourism needs to be adopted • No specific visa procedures for medical tourists and their families • Remaining stringent limits on foreign equity, types of establishment and partnerships, access to land, administrative authorizations • Only 4 establishments are ISO certified, and no JCI certification – domestic system of certification/accreditation in the process of revision
Others	• Agreements with foreign governments and/or international private insurance networks to guarantee health insurance	• Some agreements with governments (e.g. Libya) but no agreements with private insurance networks

	portability	
	• Strategic positioning, including identification of target geographical and specialty market segments – and price competitiveness on the target market segments (value for money and quality of care)	• Tunisia has mostly tapped into the Libyan market and the European cosmetic surgery market – no strategy has been drafted or put in place (ToRs were agreed in 2010 with the AfDB)
	• Intergovernmental coordination (tourism, health, trade, etc.), with the creation of an horizontal medical tourism agency or observatory as best practice	• Project of a UGPO at the ministry of health but no real inter-ministerial structure in charge of the implementation of a strategy and monitoring
	• Communication and promotion efforts (Internet campaigns, participation to international tourism fairs and health expert conferences, etc.)	• No coordination efforts and absence of legal framework to avoid malpractice – only recently were services included in the CEPEX prerogatives
	• Key alliances with reputed foreign hospitals and chains (reference patients, exchange of personnel, joint research, etc.)	• Mostly academic/research with public hospitals in France – no participation to private networks due to barriers to investment
	• *Partnerships of healthcare providers with main tourism actors: brokers, agents, hotel groups, airlines (e.g. health packages)*	• Model of tour operators that raises ethical issues – only case by case agreements, and no clear strategy

Source: Author

Beyond the elaboration of the strategy, it seems urgent to adapt the legal framework of healthcare travel, and to promote the upgrading of the Tunisian healthcare establishments. Reputational risks are extremely high in the medical tourism industry, and it is essential to prevent any kind of malpractice or breach of ethical rules. In order to attract foreign patients, the accreditation and certification of healthcare establishments is essential: the Joint Commission International (JCI) has accredited or certified close to 500 establishments in over 50 countries in the world; most establishments in Asia are ISO 9002 certified. In Tunisia, however, only 4 establishments are ISO certified, and none received a JCI accreditation. Serious efforts towards upgrading are needed, and the government needs to expeditiously harmonize its accreditation/certification rules and practice. Decree n°2012-1709 of 6 September 2012 created the Instance Nationale de l'Accréditation en Santé, which is a public independent authority in charge of improving the quality of professional practices in the Tunisian health sector through accreditation and evaluation. The INASanté was recognized by ISQua (International Society for Quality in Healthcare) to gain international stature. Thus, much progress has been achieved since 2012.

It should be noted also that Tunisia continues to apply a number of restrictions to entry in the health services sector: these are summarized in Table A2.10 below, and could be subject to opening in the context of regional or multilateral trade negotiations. Regional integration, or at least bilateral agreements, should play a particularly important role in the health sector: social security conventions and agreements with major private insurance networks are key to solve the insurance portability issue that is the main obstacle to the treatment of patients abroad; bilateral labor agreements could also facilitate the movement of key personnel to respond to local shortages; the Asian example also suggests that FDI usually plays an important role in the development of large structures able to receive foreign patients according to the best international standards – maintaining limits on foreign equity and other restrictions on foreign investment hamper the scaling-up of local capacities.

Finally, it is worth noting that most leading countries in the medical tourism sector have adopted a holistic approach to healthcare excellence: it is not enough to develop capacities for medical tourism; there is a need to promote the image of a health center of excellence at large. Thus, the health tourism strategy should make the link with other related industries, such as medical R&D and pharmaceutical (including generics) industries, or with other types of health services that could be traded, e.g. medical transcriptions. Barriers to entry in the business of senior medical residence should also be removed.

TABLE A2.10 SUMMARY: HEALTH SERVICES					
What has been done		**What remains to be done**		**How it should be done**	
Background	State of play	Short term	Medium term	Unilateral	Bilateral / Regional
-ToRs for strategy on medical tourism **-Draft law for the accreditation/certification of hospitals** **-Draft law for the regulation of medical tourism (circuit of foreign patients)** **-Pilot statistics on medical tourism to be developed by the central bank** **-Reflection on medical residences** **-Project of UGPO at the ministry of health** **-Reform of the education of nurses**	No progress observed (except for the education of nurses) Creation by Decree of the INASanté in charge of certification and quality improvement of health services	-Draft a strategy for medical tourism -Pilot phase of accreditation and certification of selected establishments – and promotion of the upgrading and adoption of international standards by clinics and hospitals -Adopt the law on the regulation of medical tourism -Implement tourism strategy to improve the quality of hospitality (including opening of the sky)	-Implement the government strategy that should include chapters on institutions, statistics, marketing, legal environment, upgrading, education, and international integration	Most reforms are unilateral with technical assistance (including on certification and accreditation where EU legislation is well advanced)	-Social security conventions -Agreements with major insurance companies for portability of health insurance -Agreements on the movement of medical personnel -Technical twinnings and development of joint education and research -Opening to foreign investment – including by removing limits on foreign equity -Open sector of medical residences

F. New technologies and off-shoring

Performance of the sector

Tunisia has early positioned itself on the market of new technologies of information and communication (NTIC) and off-shoring. In 2010, Tunisia counted over 200 call centers (in progression of +18.5 percent compared to the previous year) employing 17,500 persons, and 7 cyber parks with over 50 companies and 600 jobs. The revolution and the social movements that followed have, however, stopped the growth of the sector due to practical issues (e.g. how to maintain a 24 hour service with curfews). The A.T. Kearney index for 2011 suggests a drop in attractiveness after the crisis and the subsequent consolidation of global value chains (see Table A2.11). Nonetheless, figure 8 suggests that the NTIC sector has been the first one to bounce back in 2012, with the largest number of jobs created in relation to FDI in the services sector.

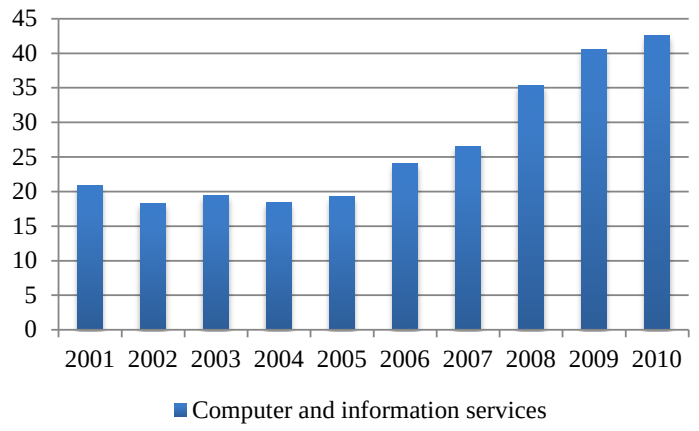
TABLE A2.11 A RECENT DROP IN ATTRACTIVENESS FOR SERVICES OFF-SHORING						
Country	**Rank in 2011**	**Change in rank since 2009**	**Financial attractiveness**	**People skills and availability**	**Business environment**	**Total score**
Egypt	4	2	3.1	1.36	1.35	5.81
Jordan	22	-13	2.97	0.77	1.49	5.23
Tunisia	23	-5	3.05	0.81	1.37	5.23
Morocco	37	-8	2.83	0.87	1.26	4.96

Note: The weight distribution for the three categories is 40:30:30. The financial attractiveness is rated on a scale of 0 to 4. People skills and availability and business environment are on a scale of 0 to 3. Source: A.T. Kearney Global Services Location Index, 2011.

Tunisia has an important potential to move up the value chain in this sector: the combination of the technological platform and the availability of skills in the profession would suggest that a move from BPO to KPO would be possible. Some Tunisian accountants have already started to offer offshore services to clients in Europe. In the medical sector, the potential is also important with medical transcripts.

Looking at new technologies more broadly, Figure A2.9 shows that the Tunisian exports of computer and information services have doubled between 2005 and 2010, but starting from a very low base.

FIGURE A2.9 TUNISIAN EXPORTS OF COMPUTER AND INFORMATION SERVICES (MILLION USD, 2001-10)



Source: WTO, 2012

Needed reforms

In 2010, the government of Tunisia has set up a task force and developed a strategy for off-shoring on the basis of a consultancy firm's report. However, came the revolution, and the strategy could not be implemented. It is now time for the government to decide on a calendar of actions. These vary a lot in scope and ambition, covering a large ground from education to business environment and fiscal incentives. The plan of action also includes an international integration dimension with strategic partnerships with European countries and international agencies. A number of the suggested measures actually reflect general recommendations made for business environment at large (and not only the

off-shoring sector), e.g. simplification or suppression of burdensome administrative authorizations, increased flexibility for money transfers.

An essential factor of success of the off-shoring strategy will be the reduction of the costs of international communications (see section above). In addition, given the role of ATI in the past, and the importance to restore the trust in the confidentiality of information, a law on data protection should be expeditiously adopted.

TABLE A2.12 SUMMARY: OFF-SHORING SERVICES

What has been done		**What remains to be done**		**How it should be done**	
Background	State of play	Short term	Medium term	Unilateral	Bilateral / Regional
-Offshore strategy drafted in 2010 **-Creation of cyber parks and development of infrastructure**	-The strategy has not been implemented but a task force has been in place	-Adoption of a law on data protection -Reduction of the costs of telecoms -Creation of a lead network agency or unit in charge of implementing the strategy	-Reform of education and training curricula to meet the needs of the sector -Reform of business environment to reduce the costs of operation and administrative burdens -Move from BPO to KPO and ITO (upgrading or mise à niveau program)	Most of the measures are unilateral	-Offensive interest under mode 1 -Soft and hard networks to facilitate business and physical connections-

Annex 3. Tunisia's Exceptions to National Treatment and Other Measures Reported for Transparency to the OECD Investment Committee

TUNISIA'S EXCEPTIONS TO NATIONAL TREATMENT

A. Exceptions at national level

I. Investment by established foreign-controlled enterprises

Trans-sectoral: The acquisition of equity granting voting rights or of social participation in companies established in Tunisia is subject to approval by the Investment Commission (*Commission supérieure d'investissement*) when it is effected by a foreign legal person established in Tunisia and when the share of foreign participation in the capital of the company is equal or above 50 percent.

Source: Decree n° 77-608 of 27 July 1977 establishing the conditions for the application of Law n° 76-18 of 21 January 1976, merging and codifying legislation on foreign exchange and commerce governing the relations between Tunisia and foreign countries, modified by Decrees n° 95-1128 of 8 June 1995 and n°. 97-1738 of 3 September 1997, article 21 bis.

Services: Activities in the following services, unless they are wholly for export, are subject to approval by the Investment Commission when foreign participation in the enterprises concerned exceeds 50 percent of their capital:

i. *Transport:* ground transport (road transport of merchandise, collective road transport of passengers, rail transport); air transport; maritime transport; transport by pipeline.
ii. *Communications*: electronic and telecommunications installations; mail distribution; video-text services; radio and television broadcasting services.
iii. *Tourism*: tourism travel agencies.
iv. *Education, teaching and vocational training*.
v. *Cultural production and industries*: restoration and development of archaeological and historic monuments; creation of museums and libraries; social and cultural film projection; music and dance; photography; video recording, recording and development of films; cultural centers; cultural fairs.
vi. *Entertainment and activities for youth and children*; day nurseries and kindergartens; recreation centers for families and children; youth and child facilities; residential and camping centers; sports training centers; sports medicine centers; physical education centers; organization of sporting and youth events.
vii. *Public works*: design, implementation and monitoring of industrial and civil engineering works, buildings and infrastructure; prospecting and drilling other than for oil.
viii. *Real estate promotion*: housing projects; buildings for economic activities.
ix. *Computer services*: databases and telematics services.
x. *Other services*: technological audit and expertise; topographic services; electrification of buildings; construction works (laying of tiles and mosaics, installation of windows and frames, false ceilings, plastering and installation of plaster works, roof sealing); construction companies; security guard services; translation and linguistic services; publishing and advertising; organization of congresses, seminars, fairs and exhibitions.

Source: Decree n°94-492 of 28 February 1994 establishing lists of activities in the sectors stipulated by articles 1, 2, 3 and 27 of the Investment Incentives Code, as amended by subsequent decrees.

Agricultural land: Ownership of agricultural land by foreigners is not authorized, but foreigners may hold such land under long-term, renewable leases. Foreign participation in companies operating agricultural land through leasing may be as high as 66 percent.

Source: Investment Incentives Code of 27 December 1993 as amended by Law n°2010-85 of 17 December 2010 constituting the budget law for 2011 (article 3); Decree of 4 June 1957 on real estate transactions as amended by Decree Law n°77-4 of 21 September 1977; Law n°69-56 of 22 September 1969 as amended by Law n° 97-33 of 26 May 1997.

Maritime fisheries and aquaculture: fishing may be conducted in Tunisian waters by fishing units of Tunisian nationality and by foreign fishing units authorized for purposes of research, apprenticeship or extension services. Legal persons are deemed to be of Tunisian nationality and eligible for authorization if they meet the following conditions: (i) they are constituted in accordance with Tunisian law; (ii) their corporate headquarters is in Tunisia; (iii) more than one third of their capital is held by natural or legal persons of Tunisian nationality and consists of registered shares; (iv) their board of directors, governance or oversight body comprises representatives of Tunisian individuals or legal persons in proportion to their shareholding interest in the company; and (v) their activity is limited to fishing in the northern zone and on the high seas. For ""fixed fisheries"", defined as bodies of water belonging to the public domain on which facilities and equipment are established to permit exploitation for fishing purposes, an authorization may be granted to legal persons whose capital is held entirely by individuals of Tunisian nationality.

Source: Law n°94-13 of 31 January 1994 on fisheries, as amended and supplemented by Law n°94-34 of 26 May 1997, Law n°99-74 of 26 July 1999 and Law n°2010-21 of 26 April 2010.

Non-scheduled (charter) air transport of freight and of passengers: participation in such companies by foreign individuals or legal persons is limited to 49 percent of the capital.

Sources: Law n° 59-76 of 19 June 1959, on Air Navigation; Executive Order of the Minister of Transport of 4 May 1996 containing general requirements (*cahier des charge*s) for the granting of authorization to operate air freight services.

Commercial activities, including wholesale and retail trade, and construction: natural and legal persons who do not have Tunisian nationality may not conduct a commercial activity, directly or indirectly, unless they meet all of the following conditions: (i) they are constituted in accordance with Tunisian law and have their corporate headquarters in Tunisia; (ii) their capital is represented to the extent of at least 50 percent by registered shares held by Tunisian individuals or legal persons; (iii) a majority of their board of directors or their governance or oversight body consists of individuals of Tunisian nationality; (iv) their chief executive officer (chairman and president) and managers are individuals of Tunisian nationality.

Source: Decree Law n° 61-14 of 30 August 1961 governing commercial activities, as amended by Law n° 85-84 of 11 August 1985; Decree Law n° 2009-69 of 12 August 2009 on wholesale trade; Decree n°2009- 2617 14 September 2009 regulating civilian building construction.

Architecture firms: at least two thirds of an architecture firm's capital must be held by architects. To work as an architect, a person must be of Tunisian nationality and must hold an architecture diploma delivered by the Technological Institute of Architecture.

Source: Law n°74-46 of 22 May 1974 on organization of the architecture profession in Tunisia.
Stock exchange intermediaries: legal persons must be of Tunisian nationality, i.e. 50 percent of the capital must be held by Tunisians.

Source: Decree Law n°99-2478 of 1 November 1999 on the status of stock exchange intermediaries.

II. Official aids and subsidies

None

III. Tax obligations

None

IV. Government purchasing

None

V. Access to local finance

None

B. Exceptions by territorial subdivisions

None

MEASURES REPORTED FOR TRANSPARENCY BY TUNISIA

A. Measures reported for transparency at the level of national government

I. Measures based on public order and essential security considerations

a) Investments by established enterprises under foreign control

None

II. Other measures reported for transparency

a) Corporate organization

Credit institutions: The CEO of a credit institution must be of Tunisian nationality. When the bylaws provide for separation of the functions of the board chairman and president, or those of the chairs of the management board and the oversight body, one of these functions must be performed by a person of Tunisian nationality.

Source: Law n° 2001-65 of 10 July 2001 on credit institutions.

Maritime fisheries and aquaculture: fishing units of Tunisian nationality must have their Board of Directors or their governance or oversight body comprised of representatives of Tunisian legal or natural persons proportionate to their shareholding interest in the company.

Source: Law n° 94-13 of 31 January 1994 on fisheries, as amended by Law n°94-34 of 26 May 1997, Law n° 99-74 of 26 July 1999 and Law n°2010-21 of 26 April 2010.

Periodic press: the director of the periodical and the editor-in-chief must be of Tunisian nationality.
Source: Decree Law n° 2011-115 of 2 November 2011, article 79.

Commercial activities, including wholesale and retail trade, and construction: natural or legal persons of Tunisian nationality must constitute the majority of members of the Board of Directors or the governance or oversight body. The president and the board chairman must be individuals of Tunisian nationality.

Source: Decree Law n° 61-14 of 30 August 1961 governing certain commercial activities, as amended by Law n° 85-84 of 11 August 1985.

Tax advisory services: foreign firms may provide tax advisory services (*conseil fiscal*) on the same basis as Tunisian nationals, provided that Tunisian professionals enjoy the same opportunities, de jure and de facto, in their home countries.

Source: Decree Law n° 61-14 of 30 August 1961 on the licensing of tax consultants, article 5.

Engineering services: the managing partner of an engineering firm must be an engineer. Tunisian nationality is one of the conditions for exercising the engineering profession in Tunisia.

Source: Decree Law n° 82-12 of 21 October 1982 establishing the *Ordre des ingénieurs.*

Corporations of bailiffs: bailiffs (*huissiers de justice*) working in a professional corporation must have had Tunisian nationality for at least five years.

Source: Law n° 95-29 of 13 March 1995 on organization of the profession of bailiffs.

Law firms: lawyers constituting a law firm must have had Tunisian nationality for at least five years. Source: Law n° 89-87 of 7 September 1989 on organization of the law profession and Law n° 98-65 of 20 July 1998 on professional law firms.

Road transport: the provision of services by foreign individuals or legal persons from, to or within Tunisian territory, as well as their commercial presence, is limited to nationals of countries with which Tunisia has concluded or will conclude an international agreement, or in the context of a partnership agreement.

B. Measures reported for transparency at the level of territorial subdivisions

None

C. Activities covered by public, private, mixed monopolies or concessions

At the level of national government

I. Public monopolies

- *Entreprise tunisienne des activités pétrolières* (ETAP) (petroleum imports and exports);
- *Société tunisienne des industries du raffinage* (STIR) (petroleum refining);
- *Société tunisienne de l'électricité et du gaz* (STEG) (electricity and gas);
- *Société nationale des chemins de fer tunisiens* (SNCFT) (railways);
- *Société nationale de distribution et d'exploitation des eaux* (water service);
- *Office national des postes* (National Post Office): for the handling of mailings of a weight not exceeding 1 kg and for the issuance of postage stamps;
- *Régie nationale du tabac et des allumettes* (tobacco products and matches);
- *Régie nationale des alcools* (alcoholic beverages);
- *Office du commerce tunisien* (Tunisian Trade Board): monopoly over the import of basic foodstuffs with fluctuating prices, including sugar, tea and coffee;
- *Office des céréales* (Cereals Board): monopoly over imports of hard wheat, soft wheat and barley, as well as exclusive rights on the local market to purchase hard and soft wheat.

II. Private monopolies

None

III. Concessions

None

Annex 4. Guide to the Main Administrative Structures Required for Implementing the Acquis

(European Commission Working Document for Guidance Only, 2005)

RIGHT OF ESTABLISHMENT AND FREEDOM TO PROVIDE SERVICES

The freedom (right) of establishment, set out in Article 43 of the Treaty and the freedom to provide cross border services, set out in Article 49, are two of the “fundamental freedoms” which are central to the effective functioning of the EU Internal Market These provisions have direct effect. This means, in practice, that Member States must modify national laws that restrict freedom of establishment, or the freedom to provide services, and are therefore incompatible with these principles. This includes not only discriminatory national rules, but also any national rules which are indistinctly applicable to domestic and foreign operators but which hinder or render less attractive the exercise of these "fundamental freedoms", in particular if they result in delays or additional costs. In these cases, Member States may only maintain such restrictions in specific circumstances where these are justified by overriding reasons of general interest, for instance on grounds of public policy, public security or public health; and where they are proportionate.

Right of establishment

The principle of freedom (right) of establishment enables an economic operator (whether a person or a company) to carry on an economic activity in a stable and continuous way in one or more Member States.

Freedom to provide cross-border services

The principle of the freedom to provide services enables an economic operator providing services in one Member State to offer services on a temporary basis in another Member State, without having to be established.

Member State should have the administrative capacity to continuously screen administrative or legal rules existing or under preparation as to their compatibility with both freedoms as interpreted by the European Court of Justice. This capacity is necessary not only at the level of the central state but also on the regional and local level where obstacles might also exist.

In assessing the administrative capacity in this area as well as the legal environment, the following questions can usefully be asked:

- Do you have a horizontal unit or working group at central state level which has the task of screening administrative and legal rules existing or under preparation as to their compatibility with the right of establishment and the freedom to provide cross-border services? Do such units or working groups exist at regional and/or local level?

- Do you have any horizontal legislative or administrative requirements, which apply to all businesses wishing to trade in, or with, your country in the field of services?

If YES:

- Do these apply equally to businesses wanting to establish in your market and to businesses

established in the EU supplying cross-border services? If not, what are the differences between the regime applying to establishment and the regime applying to service provision?

- Will this system apply to businesses from EU Member States after accession? What are the procedures for obtaining a license (or other form of authorization)?

- What are the requirements which have to be met to obtain a license or authorization? (For example, are there nationality or residence requirements, or does documentation have to be provided from the country of origin of the service provider?)

- To what extent are requirements which the business has already fulfilled in its state of establishment taken into account?

- How long does it take to obtain a license?

- Is there a fee for the license? If so, how much is it?

- Is the licensing requirement combined with mandatory membership of a chamber of commerce, trade association or other body? If this membership involves a fee, how much is it?

- What is the justification in policy terms for the licensing system? What alternative methods of achieving the same result have been considered (if any)?

Postal Services

The Postal Directive (97/67/EC) establishes a **regulatory framework** for the **Community postal sector** which, *inter alia*, defines the **common minimum characteristics** of the **universal postal service** to be guaranteed throughout the Community and sets maximum limits for the services which may be reserved to the universal service provider. The **National Regulatory Authorities (NRAs)** are responsible for ensuring compliance with the **obligations** arising from the **Postal Directive** and should also be responsible for ensuring compliance with **competition rules** in the postal sector.

NRAs are required to be **legally separate** from and **operationally independent** of the postal operators. This includes ensuring that within the Government, regulatory responsibilities are separated structurally from the responsibility for exercising any property rights in the incumbent postal operator.

Main **tasks** of the NRA:

- **Licensing** (in particular granting, supervision, amendment and withdrawal of licenses);

- Supervision of provision of the **universal service** (in particular the granting of any exceptions or derogations from the universal service requirements);

- Supervision and control of **accounting requirements** for universal service providers (systems for cost accounting and accounting separation);

- **Monitoring performance** of the universal service providers (measuring quality of service against the standards set for domestic and cross-border mail.

The National Regulatory Authority will be **evaluated** according to:

- its establishment (established or not?);
- its conformity, once established, to the requirement for independence as defined above (independent or not?);
- whether or not it is adequately resourced (level dependent on the country – sufficient resources or not?);
- whether or not it has been allocated by law the responsibilities defined above. In assessing the administrative capacity in this area, the following questions can usefully be asked:

a) *Structure of Supervisory Body*

- Has a **Postal Market NRA** (National Regulatory Authority) been **established**?
- If not, are there plans in this respect? Calendar?
- If yes, is it an **autonomous** body? Does the degree of autonomy respect the independence's requirement vis-à-vis the universal services provider?
- Sources of **financing**?
- What are the **responsibilities** of this regulatory body? Do they respond to the requirements set in the postal services *acquis*?
- What are the **nomination procedures** and **terms of office** of its NRA head? What are its **powers**? How many people work in this authority?

b) *Other issues related directly with the acquis*

- How is/are the USP(s) Universal service Provider(s) performing its/their current **general interest mission** in the country? By means of more or less recent legal tool? Past legislation? Ad-hoc legislation?
- How is the **licensing regime** (in particular grant, supervision and withdrawal of general authorizations and licenses) being applied?
- How is the **supervision** of the provision by the USP(s) of **universal service** exerted by the national regulatory authority or by other supervising national authorities? in particular regarding the granting of any exceptions or derogation from the universal service requirements?
- Is the ***de jure*** **reserved area** defined and regulated by law? If not, by which other means?

- What is the role, if any, of the NRA with regard to **State proprietary interests** in the USP?

- How are the supervision and control of **accounting requirements** for **universal service providers** (systems for cost accounting and accounting separation) ensured in practice? In the absence of such controls, what are the time schedules for their implementation?

- Is the **performance** of the **universal service providers** (e.g. measuring quality of service against the standards set for domestic and cross-border mail and ensuring corrective action when necessary) periodically **monitored**? If not by the NRA, by whom?

Mutual recognition of professional qualifications

The organization of **mutual recognition** of **professional qualifications** is based on **mutual trust** between the different national authorities and, as regards professions for which sectoral Directives have been adopted, on the **previous co-ordination** of the **national legislations** on training giving access to the profession and on the **respect** of the **minimal training requirements** set out by those Directives.

Each Member State must therefore **have adequate structures** to **enforce compliance** with the requirements mentioned above and with the professional and ethical obligations of those practicing regulated professions, to **certify** the **professional qualifications** of its **nationals** and to handle the **requests** for **professional recognition** by **non-nationals**.

The **body ensuring compliance** is either a **Ministry** (or Ministries) or a **professional organization**, or **both**. The Ministry is normally responsible for the training leading to access to the profession, alone or in association with the professional organization, to which this power may be entirely delegated. Authorization to practice the profession may be left to the professional organization (compulsory registration), to the Ministry (licensing) or to both (licensing and compulsory registration).

In assessing the administrative capacity in this area, the following questions can usefully be asked:

a) General Systems Directives (Dir. 89/48/EC and 99/42/EC)

- Which are the **bodies** and **institutions authorizing to practice** a regulated profession**?**

- What are the **competent authorities** for the **mutual recognition** of professional qualifications as well as for **enforcement** of the general systems directives?

- Have you already established a **national coordinator** to co-ordinate the activities of the bodies and institutions responsible for recognition of professional qualifications?

- What are the human resources allocated to this authorities and bodies? *b) Sectoral Directives for lawyers, architects and health care professions*

- Which **bodies** and **institutions** are responsible for the implementation and enforcement of Dir. 77/249/EC and 98/5/EC aiming at facilitating the **establishment** and the **freedom to provide services** for **lawyers**?

- What **authority** or **body** is foreseen to **implement** and enforce the mutual recognition of diplomas, certificates and other evidence of the formal qualifications for **architects** according to Dir. 85/384/EEC?

- Which **bodies** and **institutions** are foreseen to implement and enforce the mutual recognition of professional qualifications for the **health care** professions, such as doctors, Dir. 77/453/EEC; veterinary surgeons, Dir. 78/1027/EEC; dentists, Dir. 78/687/EEC; nurses and midwives, Dir. 77/453/EEC and Dir. 80/155/EEC, and pharmacists, Dir. 85/432/EEC ?

- What are the **implementing authorities** for the **recognition** of **foreign** university **diplomas** and professional **qualifications** for each of the **professions** covered by the **sectoral Directives**?

- What are the human resources allocated to each of the above bodies and institutions?

Annex 5. Table of Correspondence between Negotiation Chapters and the Acquis in the EUR-Lex Repertoire of EU Legislation

06.	**Right of establishment and freedom to provide services**
06.10	Principles and conditions
06.20	Sectoral application
06.20.10	Production and processing activities
06.20.10.10	Agriculture
06.20.10.20	Other production and processing activities
06.20.20	Service activities
06.20.20.40	Real property
06.20.20.50	Leisure services
06.20.20.60	Personnel services
06.20.20.70	Services provided to undertakings
06.20.20.80	Other service activities
06.20.30	Business activities
06.20.40	Self-employed activities
06.20.50	Medical and paramedical activities
06.20.60	Other activities

Annex 6. Public procurement regulations in Tunisia

A new Decree governing the regulation of Public Procurement was promulgated in Tunisia on March 15, 2014 (Decree 2014-1039 of 13 March 2014), and enacted on June 1, 2014. The Decree lays down the rules governing the award, execution and control of public contracts, and carries substantial innovations to the text of the Decree 2002-3158 of 17 December 2002, as amended by Decree No 2167 of 10 August 2006 and Decree n ° 2008 - 561 4 March 2008.

The main areas of reform can be summarized as follows:

1) The ceiling for public contracts exempted from public Procurement Procedures (Article 5) and subject to simplified procedure (Art. 50 and 51) was increased, as summarized in the attached tables.

Table A6.1 (a) Revised ceiling for public contracts exempted from public Procurement Procedures as per Decree 2014-1039 of 13 March 2014

Purpose of contract	Projected maximum contract amount (all taxes included)
Civil engineering or road works	200,000 dinars
Studies and supply of goods and services in IT and communication sector	100,000 dinars
Supply of goods or services in other sectors	100,000
Studies	50,000

Table A6.1 (b) Revised ceiling for public contracts subject to simplified procedures as per Decree 2014-1039 of 13 March 2014

Purpose of contract	Projected maximum contract amount (all taxes included)
Civil engineering or road works	200,000-500,000 dinars (originally 100,000-200,000 dinars)
Studies and supply of goods and services in IT and communication sector	100,000 -200,000 dinars
Supply of goods or services in other sectors	100,000 -300,000 dinars (originally 15,000-50,000 dinars)
Studies	50,000 -100,000 dinars (originally 15,000-50,000 dinars)

According to Art. 50, the public purchaser may fix the conditions of the simplified procedure based on the nature, volume and characteristics of the order and the availability of economic operators likely to respond.

1) Among the principles that govern Public Procurement, the Decree added rules of good governance and reflected the requirements of sustainable development (Art. 6).

2) It became mandatory for the public buyer to publish the provisional plan on the national procurement website no later than thirty (30) days before the start of award procedures (Art. 8).

The decree also specifies maximum time for each phase of the procurement according to the following table:

Period of validity of the tender	**60 days**	**120 days**
Technical and financial evaluation	20 days	60 days
Opinion of the Public Procurement Control Commission on the evaluation report	20 days	20 days
Approval and signature Proposed Procurement	10 days	10 days

3) The transparency of the process and its results is increased: according to Art 73, the public buyer must publish the results of the award on the website including the name of the contractor, the amount of the contract, its purpose and its estimated duration.

4) The introduction of specific provisions for the e-procurement (Section 5 provisions Articles 77-82)

5) The introduction of methods: a) the selection based on the balance between quality and cost, b) selection based on quality and c) selection according to the least remote from the for study proposals (Art 123 -126).

6) The creation of the National Council of Public Contracts (Article 143) attached to the Head of Government office; a body that, even if only advisory in nature is composed of personalities from public and private sector and its mandate is to study and to propose any measures to improve the governance of public procurement and submit all proposals relating to the prevention and the fight against corruption in public procurement.

7) The introduction of sanctions for representatives of public purchasers and more generally any person involved in any capacity in the procurement award and execution process of public contracts, the application of the laws and regulations relating to the fight against corruption and

monitoring of conflicts of interest in public procurement. Further, any contract awarded through fraudulent practices is considered void and participants are inserted into a temporary or permanent exclusion list (Art 173-179).

On the other hand, the Decree unfortunately introduces exclusions to its application, which are not welcome. The most important is the exclusion from the Decree and related procurement rules, granted to purchases of public enterprises (SOE), even if they operate in a competitive environment. (Art 4 of the Decree).

Title 4 provides that the Board of Directors of the Public Company sets minimum thresholds above which orders are subject to written award procedures and must follow a special procedure decided by the Board itself.

This solution is not necessarily in line with international best practice and creates an unnecessary and dangerous exception to the regular competition mechanism.

In fact, SOEs should operate according to the same competition framework that private companies do, including with regard to Public Procurement. The competition law is not sufficient to ensure a level playing field between public and private enterprises. This is why policies should be in place to establish the principle of competitive neutrality in markets where public and private companies compete, that is to say a regulatory framework (i) where the public and private enterprises are covered by the same set of rules and (ii) where the relationship with the State shall not give any competitive advantage to neither of them (see also chapter on this competition above).

For these reasons, it is recommended to subject public companies that operate in a competitive environment to the ordinary public procurement rules.

Another reason of concerns in the new Decree is given by the absolute preference given to Tunisian enterprises expense of possible technical quality.

First of all, Art. 26 provides that Offers submitted by Tunisian companies for works and the products of Tunisian origin in all contracts for the supply of goods are, if of the same quality, preferred to Offers of foreign companies and to the products of any other origin, even if the financial offers of Tunisian companies appear to be less competitive (maximum 10%) than the offers of foreign companies.

In addition, the requirement of reference to similar projects cannot work against Tunisian companies (Art. 25)

The Decree also requires (Art. 23) that the specifications must encourage foreign consulting firms to associate to one or more Tunisian consultants or experts and the contract must clearly show the tasks entrusted to Tunisian firms/experts and the relevant amounts.

Excerpt from December 17th, 2002 latest decree n° 2002-3158, on public procurement regulations, modified.

Article 19a (added by decree n° 2167 on August 10, 2006 and amended by decree n° 2008-561 on March 4, 2008)

The provisions of articles 19a and 46 of decree n° 2002- 3158 from December 17, 2007, on public procurement regulations are being appealed and replace by the following:

Article 19a (new) – the public purchaser annually reserves a percentage to small companies that is within 20 percent of the predictive value of public contracts, supply of goods and services, and training, as shown in paragraph 2 of this article.

Considered small businesses under this current decree, currently running and recently-started businesses conform to the conditions specified in the following table, which determine the maximum earnings forecasted for its reserved markets:

Table A6.1 (c) Ceiling of Projected maximum contract amount			
Purpose of contract	**Projected maximum contract amount (all taxes included)**	**Maximum annual turnover for the current firm in business**	**Maximum amount of investment for the recently formed company**
Civil engineering or road works	500,000 dinars	1,000,000 dinars	500,000 dinars
Technical work on fluids, electricity, fire safety, or related works	300,000 (originally 100,000 dinars)	400,000 (originally 200,000 dinars)	200,000 (originally 100,000 dinars)
Technical works on carpentry, painting, sealing, or on elevators, kitchens, or similar works	300,000 (originally 80,000 dinars)	400,000 (originally160,000 dinars)	200,000 (originally 80,000 dinars)
Goods	300,000 (originally 150,000 dinars)	600,000 (originally 300,000 dinars)	300,000 (originally 150,000 dinars)
Services	200,000 (originally 100,000 dinars)	400,000 (originally 200,000 dinars)	200,000 (originally 100,000 dinars)
Studies	60,000 (originally 30,000 dinars)	120,000 (originally 60,000 dinars)	60,000 (originally 30,000 dinars)

The specified provisions do not apply to the company whose capital is held by more than 25 percent by a company or a group of companies that do not meet the definition of a small business.

These contracts are awarded following separate controls mechanisms, through one or more batches of a set of controls, or participation is exclusively reserved to small businesses according to the purpose of the market.

It is stated in the call to competition notice and the specification documents that the entire order or one or more lots are reserved for concerned small businesses, and to those at the participation and allocation level.

The public buyer shall establish a markets program to reserve to small companies and be accompanied by a timetable for implementation to the national public procurement observatory, mentioned in Title 9 of this decree, within a period not exceeding January 31st of each year.

If unable to reserve the above mentioned markets for small businesses within the above mentioned percentage, for technical reasons or due to a lack of small companies that may be responsible for the execution of such contracts, the public buyer must justify this in a report addressed to the commission for markets established within or to which it belongs. The public buyer establishes at the end of every year a report on the contracts awarded to small businesses, comprising in particular of a comparison of the value of these contracts and the forecasts to the assessment of the performance conditions, and then sends this report to the national public procurement observatory and the committee for monitoring and investigation of public procurement referred to in Title 9 of this decree.

Article 19b (added by decree n° 2008-561 on March 4, 2008)

Is reserved for craftsmen as defined by the laws and regulations in effect, the participation in work related to craft activities in public projects, except where physically impossible. In that case, the public buyer must specify in the special report referred to in article 100 of the current decree, the justifications of this impossibility. The responsible commission of procurement must issue its opinion on these justifications.

Article 20

Given the provisions of articles 19 and 24 of this decree, and in the cases where it calls for international competition, the specification documents thereto must include, unless duly justified to be impossible, a national subcontracting clause under which foreign bidders must entrust to local providers the execution of maximum batch ordering of products, equipment, or services, or for any case where local industries or companies are likely to respond to having a portion of the supply.

Foreign bidders will be invited to provide in support of their detailed list submissions of their products or their batches to be assigned to local subcontractors.

Article 21

Products originating from Tunisia are, with equal quality, preferred in all the supply markets of products from any other origin, to the extent that the price of Tunisian products does not exceed more than 10 percent of the price of foreign products.

The bidder is required to submit the certificate of Tunisian origin issued by the relevant authorities.
In order to apply the margin of preference for products originating from Tunisia, the comparison of bids is established by considering customs duties and then based on the selling price with all duties and taxes included.

Article 22

Unless otherwise provided in the specifications manual, and for technically complex orders in article 72 of the current decree, bidders can present one or multiple alternative bids with technical

specifications other than those provided by the basic solution, provided a bid relating to the scope of the contract is placed as required by the specifications manual and that the alternative offer does not cause substantial changes in the need of the public buyer.

The alternative solution bid must contain all the information and details on this relative variation and must be supported by all the necessary documents for assessing this solution; it must be based on the same methodology announced in the specifications manual.

Article 23

Notwithstanding, the provisions of the first paragraph from article 22 of the current decree, Tunisian companies can present, exceptional, alternative bids without being required to present a basic solution when it turns out that the conditions and specifications of the basic solution will not allow these companies to participate in the bidding process.

The alternative bid proposed must meet the needs and objectives sought in terms of the technical quality, cost, procedure, and timeframes.

Article 24

When it calls for a foreign design office, the specifications manuals must include, unless duly justified to be impossible, the obligation to involve a Tunisian design office, if applicable, a list of offices shortlisted sand determined by the public buyer, depending on the nature and purpose of the study. This list will be included in the specifications manual. The contract to be concluded with the foreign design office must clearly indicate the benefits conferred to the Tunisian office it is partnered with, including the relevant amounts.

Article 25 (amended by decree n° 2004-2551 on November 2, 2004)

When calling upon foreign companies specialized in the information technology (computing) and communications technology fields, the specifications manuals must include, unless duly justified to be impossible, the obligation to involve specialized Tunisian companies selected according to the criteria announced in such specifications manuals.

Article 26 (amended by decree n° 2003-1638 on August 4, 2003)

Manuals on specific clauses must not contain provisions that are likely to eliminate or exclude the participation of Tunisian enterprises in public procurement.

The requirement for bidders to have references relating to the implementation of similar projects in areas where domestic firms have not previously operated, are considered as provisions eliminatory in nature within the meaning of this article.
In this case, the public buyer shall, except in duly justified exceptional cases, replace the condition of similar references by projects with the same degree of complexity in the area covered by the contract without being similar.

The committee responsible for procurement must issue its opinion on these justifications.

Annex 7. Alternative trade liberalization scenarios for Tunisia: a CGE model

The trade liberalization and reform agenda underway has several important components. In this study, the impact of Deep and Comprehensive Trade liberalization on the economy of the Republic of Tunisia is decomposed by reform type. Macroeconomic impacts are analyzed and compared across alternative liberalization scenarios. For core scenarios, the impacts on employment and output in specific industrial sectors are provided.

A benchmark scenario is developed to represent the initial inter-linkages across the economy in the base year 2010. The datasets are assembled into a micro-consistent set of economic supply and demand relationships. Data from the social accounting matrix and import matrix are used to represent the underlying technological requirements associated with production in 24 sectors of the economy. Intermediate and final demand proportions are also modeled as consistent with the social accounting matrix. The benchmark scenario is in equilibrium as it reproduces the benchmark 2010 data as an equilibrium outcome of the model. The modeling methodology is available upon request.

Policy parameters are modeled and then adjusted in counterfactual trade liberalization scenarios. These policy parameters include bilateral import and export tariffs, non-tariff barriers, and services inefficiency barriers. Tariffs act as a tax on trade where the revenues are collected by either the customs office for import tariffs, or by foreign customs officials for tariffs on Tunisia exports. Non-tariff barriers are assumed to raise the cost of international trade without generating revenue for agents in the economy. In other words, non-tariff barriers are assumed to consume real economic resources (rather than pure economic rents).

Policy reform is modeled as a set of comparable scenarios. Considered are a gradual and shallow approach whereby tariffs are reduced unilaterally by 50 percent and then fully on an MFN basis. Next, a scenario considers Deep and Comprehensive FTA involving NTB liberalization on goods trade with trading partners (EU, GAFTA, US). Finally, services liberalization is considered. For all scenarios, liberalization assumes government revenue neutrality.

A. Methodology

The Republic of Tunisia is modeled as a small and open economy in which world prices are set externally. In this computable general equilibrium (CGE) model, domestic commodity and factor prices adjust to policy shocks to reach a Walrasian equilibrium outcome.

International goods trade is subject to tariffs (tax on imports and foreign tax on exports) and non-tariff barriers. Tariffs generate tax revenues but also increase the domestic price of imported commodities above the world price. Foreign tariff barriers on Tunisia exports lowers the net return to Tunisia exports and generates revenues for foreign governments. Non-tariff barriers are assumed to generate real economic costs for international transactions and are assumed to be purely resource using. That is, NTBs do not generate rents or revenues for any agent, either foreign or domestic.

Services liberalization commitments are treated in two ways. First, cross border services trade is assumed to be subject to frictional wedges or transactions costs. These are treated as ad valorem tariff equivalent costs but do not result in economic rents. Second, services barriers restrict entry

and sales through domestic presence. These regulatory barriers are assumed to generate rents for domestic agents and also to result in inefficiencies as incumbent firms may be operating below internationally competitive standards. A similar methodology is set forth in Konan and Maskus (2006). Services liberalization involves the removal of markup rents due to improved competition. It is important to note that further research would be required to carefully consider sector-level liberalization opportunities.

The full computable general equilibrium model is discussed in an appendix. In brief, the Tunisia CGE is customized to available data from the INS. Output in each sector is produced using intermediate inputs and real value added, including labor. International trade is modeled on a bilateral basis with the US, EU, Morocco, Libya, other Greater Arab region, and the rest of the world (ROW). International world prices are determined outside of the model, especially as Tunisia supply and demand are a small share of world output. Tariffs and NTBs are adjusted in counterfactual scenarios.

A representative consumer maximizes utility (welfare) according to a multi-stage budgeting exercise. In the first stage, the consumer decided how much disposable income is available after savings. Stage 2, consumers determine domestic and import expenditures by sector based on their income (derived from returns to factors of production and government transfers) as well as the prices of commodities.

The scenarios are presented along four dimensions:

- ✓ Endogenous (or constant) government revenues (by adjusting VAT)
- ✓ MFN goods liberalization versus bilateral agreements
- ✓ Good shallow vs deep trade integration
- ✓ Services liberalization (by Modes of services)

Alternative Policy Scenarios

I. Government revenues under alternative trade policies

Import tariffs are an important revenue source for Tunisia. Two key options are modeled. First, tariffs are assumed to adjust while holding other tax policy instruments constant. Government revenues fluctuate and generally fall due to losses in import tariffs. Under the second assumption, government revenues are assumed to remain neutral so the public expenditure is held constant in real terms. In order to achieve government revenue neutrality, the value added tax (VAT) is adjusted proportionally and generally is increased to recover lost tariff revenues.

II. Most-favored nations (MFN) liberalization versus bilateral agreements

Scenarios were explored for multilateral trade liberalization through reduction or elimination of MFN tariff rates, as well as bilateral trade liberalization with key trading regions including United States (USA) free trade agreements, European Union (EU) partnership agreements, and the Greater Arab Free Trade Agreement (GAFTA). Importantly, the researchers were unable to obtain bilateral tariff data and thus made the assumption that tariffs apply on a MFN basis in the benchmark. However, this may not be accurate due to current preferential arrangements in place.

III. Shallow versus deep trade integration

Under shallow integration scenarios, trade liberalization is modeled as simply a change in applied tariff rates. Deeper integration involves liberalization of non-tariff measures (NTMs), as discussed above. In this analysis, NTMs are assumed to be resource-using rather than rent-seeking in nature (see Hoekman and Konan, 2000 and 2001a for the distinction).

IV. Goods versus services trade

Traditionally, international economic integration has focused on goods trade and the movement of products through customs offices. More recent agreements also facilitate services trade across alternative modes of delivery. First, scenarios consider shallow and deep goods trade liberalization. Next, services are considered in terms of the following: further telecommunications liberalization, cross border services liberalization (Mode 1), and foreign establishment of domestic presence (Mode 3). Movements of people through Modes 2 and 4 (e.g. immigration and tourism policy) are not considered.

B. Effects of tariffs reduction in goods and services

The results are summarized in three tables that follow the same presentation format. Table A7.1 presents the results of shallow and deep liberalization with endogenous fiscal revenues. Table A7.2 presents the results for the same simulations but imposing neutrality of government revenues by allowing VAT to adjust. Finally, Table A7.3 presents the results for liberalization in services. All results are reported in real (inflation adjusted) terms. That is, all quantity expenditures are evaluated at constant 2010 benchmark prices rather than at the post-scenario prices. Price and welfare indices are generally evaluated using Hicksian-neutral equivalent variation (EV) in terms of the relevant agent.

A. Trade liberalization without domestic tax reform

Consider first the results of international integration under the assumption that there is no off-setting change in the underlying domestic tax structure. The VAT and other government revenue instruments do not change with the reduction or elimination of tariffs on imports. As a result, government revenues (and thus expenditures) will fluctuate with changes in international policy. We anticipate that government revenues contract when tariff revenues are lost. Table A7.1 Panels A, B, and C consider the full range of liberalization option. Table A7.1 Panel A presents estimated macroeconomic impacts of implementing shallow reform on a regional and multilateral basis. As discussed previously, shallow reforms are limited to import tariffs alone. The first counterfactual scenario (2) simulates the impact of reducing all tariff rates unilaterally by 50 percent, gradual shallow liberalization. The welfare of an average person (representative agent) improves by 2 percent as prices fall and real wages and salaries improve slightly. Real output is estimated to increase by 0.9 percent, providing an improvement in household expenditures of 0.9 billion TD. Because savings is assumed to be fixed in real terms, this increase in household expenditures translates directly into improvement in current welfare of 2 percent. In terms of factors of production, Tunisia has an abundance of labor relative to its trading partners. This tariff liberalization scenario demonstrates that real returns to labor go up 0.5 percent. However, government revenues contract by nearly 2 percent, thus redistributing income to households.

Full tariff elimination on a unilateral MFN basis provides the most significant benefit of all shallow liberalization scenarios. Welfare increases by 5 percent. That is, the representative household can afford to enhance their overall expenditures by about 5 percent and this improves

their overall wellbeing. The improvement is a combination of rising income levels, as wages and other returns improve, and falling prices. Wages and salaries increase by about one percent and the consumer price index falls by over 2 percent. Government revenues decline by 12 percent, imposing a contraction on government expenditures to 88 percent of pre-reform levels. This analysis doesn't address whether the government contraction has a direct impact on households. However, it is important to note that tariff collections are a significant source of government revenues. In value terms, eliminating tariffs is estimated to increase national output by 5.2 billion Tunisian Dinars. Household expenditures are estimated to increase by 2.0 billion TD.

Partial liberalization scenarios are considered in columns 4-6. Again, the author notes that data were not available on bilateral applied tariffs. Thus tariffs are assumed to apply on an MFN basis in the benchmark. As the EU and GAFTA agreements are partially in force, this assumption should be revisited should more data become available.

In quick summary, the analysis shows that the EU appears to be the most significant trading partner. Efforts to move to free trade with EU are likely to have the largest payoff. A shallow USA Free Trade Agreement offers limited welfare gains, while shallow GAFTA has very little impact on the economy. Interestingly, the overall benefit of moving on an MFN basis is greater than the sum of benefits of bilateral reform.

Consider next Table A7.1 Panel B, the impact of deep international integration whereby tariff liberalization is joined by domestic reforms of NTMs. As discussed above, estimates of NTMs were compiled specifically for this study. Deep integration improves welfare notably. Most dramatically, even with partial MFN tariff elimination of 50 percent household welfare is estimated to improve on average by 9 percent as shown in Column (2). Real wages and salaries go up 6 percent and household expenditures expand by 4.3 billion TD. Interestingly, this growth does create some inflationary pressure with consumer prices increasing by about 3 percent. The sacrifice in government revenues is modest at 1.8 percent.

The effort to reduce NTMs brings substantial benefits even if coupled with modest tariff reductions. Table A7.1 B Column (3) shows the impact of full MFN Tariff and NTM elimination. Welfare increases by nearly 12 percent and government revenues drop by over 9 percent. Household expenditures expand by 5.0 billion TD. While the improvement in welfare and expenditures is notable, it is accompanied by a sharp cut in government expenditures and revenues.

Finally, an initial attempt is made to quantify potential gains from services liberalization. It is important to note that many Tunisian services are offered in sectors that are highly regulated and controlled. Thus, further study is required to capture the full benefit and potential cost of alternative paths to deregulation. Table A7.1 Panel C presents the results of a reduction in services markups as shown in Table 1.2 of the main report.

The impact of reducing border barriers on services that are traded across borders (Mode 1 delivery) is provided in Column (2). It is assumed that services barriers act as NTMs and are resource using in nature. This analysis assumes that NTMs on Mode 1 services trade could readily be reduced in half. In addition, services tariff rates are assumed eliminated. Mode 1 liberalization improves welfare by about 2 percent and household expenditures by 6.2 billion TD. Remarkably, returns to workers goes up by over 11 percent. Mode 1 liberalization thus significantly improves the situation of labor, or those deriving income primarily from wages and salaries. (Note, this model assumes unemployment is constant. However, the pressure on wages and salaries could be met by an influx of new people into the workforce). This option provides

the very attractive benefit of substantially improving employment conditions while having a trivial impact on government revenues.

Column (3) considers liberalization of Modes 1 and 3. Foreign firms that establish a domestic presence are assumed to employ local labor and other value added. For simplicity, the scenario assumes that the markup associated with Tunisia services (from Table 1.3 of the main report) is eliminated due to competition from foreign entrants. Broad services liberalization raises welfare by 7 percent. Liberalization also reduces the consumer price index. Not only do services prices decline, but they also reduce the cost of producing various goods that rely on service intermediate inputs. Government revenues do fall by about 11 percent. Returns to labor improve by 12 percent.

Finally, the highest welfare is achieved through broad-based deep goods trade liberalization combined with broad services liberalization. Overall welfare improves by 14 percent and household expenditures increase by 7.2 billion TD or 17 percent. Returns to wage and salary earners improve significantly by 18 percent. Government revenues drop by about 9 percent in the liberalized environment.

B. Trade liberalization with Government Revenue Neutrality

As discussed in the previous section, an implication of tariff liberalization is that government revenues are likely to contract. Tariffs provide a significant share of Tunisia government revenues. The services provided with government expenditures are in the public good. Tunisia officials must thus consider domestic options to replace tariff revenues with other sources of funding.

A detailed study of this issue would require more information on the domestic tax structure and the policy instruments available. Options to consider might include labor or capital taxes, sales taxes, or other revenue enhancement instruments. For the purpose of this study, analysis is limited to a simple assumption that the value added tax (VAT) acts as a revenue balancing instrument. Moreover, the VAT is assumed to increase or decrease proportionally across all sectors in order to just provide for benchmark level government expenditures. Thus while government revenues and expenditures are held fixed in real terms, the VAT adjusts in each scenario. The results are shown in Table A7.2, Panels A, B, and C.

Several observations are immediate. Most notably, the benefit of goods trade liberalization is dampened. This impact is most significantly seen for shallow trade liberalization, where full MFN tariff elimination brings less than one percent gain in welfare or household expenditures, Table A7.2 Panel A. The benefit of deep integration remains substantial but provides less welfare benefit than experienced under stable domestic taxes, with gains of 8 percent and 12 percent respectively. VAT rates may be forced to increase dramatically. For example, in order to maintain government revenue neutrality the VAT rates increase by 43 percent for shallow MFN goods liberalization and 33 percent for deep MFN goods liberalization. It is important to note that VAT rates vary significantly across sectors, and thus the domestic tax structure may not support growth in areas that would benefit from freer trade. Further study would be required to consider an optimal domestic reform.

Finally, the domestic policy environment significantly undermines gains to be had from services liberalization. Mode one and three combined liberalization increases welfare by only 3 percent, whereas similar gains were upward of 7 percent when tax rates were held constant.

TABLE A7.1 PANEL A IMPACT OF SHALLOW GOODS TRADE LIBERALIZATION (GOVERNMENT REVENUES FLUCTUATE)						
	Baseline Values	50% MFN Tariff reduction	Full MFN Tariff elimination	USA Free Trade Agreement	EU Free Trade Agreement	Greater Arab Free Trade Agreement
	(1)	(2)	(3)	(4)	(5)	(6)
Indices						
Welfare index	1.00	1.02	1.05	1.01	1.03	1.00
Consumer price index	1.00	0.99	0.98	0.99	1.02	1.00
Government expenditures index	1.00	0.95	0.88	0.98	0.96	1.00
Wage bill index, real	1.00	1.00	1.01	1.00	1.02	1.00
Billions Dinars, 2010 prices						
Household expenditures	42.5	43.4	44.5	42.8	43.8	42.6
Gross domestic product	65.4	65.4	65.5	65.4	65.4	65.4
Output	163.7	167.2	167.5	163.7	170.6	164.0
Percent change						
Welfare		2.14	4.75	0.68	3.00	0.17
Gross domestic product		0.04	0.10	0.02	0.05	0.00
Output		0.94	2.38	0.05	4.22	0.19
Consumer price index		(1.10)	(2.38)	(0.76)	1.59	0.10
Wages and salaries		0.50	0.88	0.09	1.51	0.06
Government revenue		(4.64)	(11.57)	(1.97)	(3.91)	(0.16)

TABLE A7.1 PANEL B IMPACT OF DEEP GOODS TRADE LIBERALIZATION (GOVERNMENT REVENUES FLUCTUATE)						
	Baseline Values	50% MFN Tariff reduction	Full MFN Tariff elimination	USA Free Trade Agreement	EU Free Trade Agreement	Greater Arab Free Trade Agreement
	(1)	(2)	(3)	(4)	(5)	(6)
Indices						
Welfare index	1.00	1.09	1.12	1.01	1.06	1.01
Consumer price index	1.00	1.03	1.02	0.99	1.02	1.00
Government expenditures index	1.00	0.98	0.91	0.98	0.96	1.00
Wage bill index, real	1.00	1.06	1.06	1.00	1.03	1.00
Billions Dinars, 2010 prices						
Household expenditures	42.5	46.2	47.5	46.5	47.1	47.6
Gross domestic product	65.4	65.5	65.5	65.4	65.5	65.4
Output	163.7	177.0	180.3	163.8	173.9	164.3
Percent change						
Welfare		8.64	11.65	0.97	5.70	0.70
Gross domestic product		0.06	0.12	0.02	0.07	0.00
Output		8.13	10.19	0.12	6.24	0.37
Consumer price index		3.02	1.78	(0.89)	2.26	0.05
Wages and salaries		5.71	6.30	0.28	3.37	0.38
Government revenue		(1.78)	(9.22)	(2.08)	(3.62)	(0.18)

TABLE A7.1 PANEL C IMPACT OF SERVICES TRADE LIBERALIZATION (GOVERNMENT REVENUES FLUCTUATE)				
	Baseline Values	Cross-border services (Mode 1)	Cross Border and Domestic Presence (Mode 1 & 3)	Deep MFN Goods and Services
	(1)	(2)	(3)	(4)
Indices				
Welfare index	1.00	1.02	1.07	1.14
Consumer price index	1.00	0.96	0.94	0.97
Government expenditures index	1.00	1.00	0.89	0.91
Wage bill index, real	1.00	1.11	1.12	1.18
Billions Dinars, 2010 prices				
Household expenditures	42.5	48.7	49.2	49.7
Gross domestic product	65.4	65.4	65.4	65.5
Output	163.7	158.5	161.2	173.1
Percent change				
Welfare		2.13	6.82	13.76
Gross domestic product		(0.05)	0.03	0.06
Output		(3.18)	(1.48)	5.79
Consumer price index		(3.76)	(6.48)	(2.68)
Wages and salaries		11.21	12.15	17.95
Government revenue		0.10	(11.08)	(8.86)

Notes: Welfare and consumer price indices measured in Hicksian Neutral Equivalent Variation
Values are evaluated at 2010 prices (real values)

TABLE A7.2 PANEL A IMPACT OF SHALLOW GOODS TRADE LIBERALIZATION (GOVERNMENT REVENUES CONSTANT, VAT ADJUSTMENT)						
	Baseline Values	50% MFN Tariff reduction	Full MFN Tariff elimination	USA Free Trade Agreement	EU Free Trade Agreement	Greater Arab Free Trade Agreement
	(1)	(2)	(3)	(4)	(5)	(6)
Indices						
Welfare index	1.00	1.01	1.01	1.00	1.02	1.00
Consumer price index	1.00	0.99	0.97	0.99	1.02	1.00
Value Added Tax index	1.00	1.18	1.43	1.08	1.15	1.01
Wage bill index, real	1.00	1.01	1.02	1.00	1.02	1.00
Billions Dinars, 2010 prices						
Household expenditures	42.5	42.75	42.91	42.50	43.22	42.54
Gross domestic product	65.4	65.42	65.43	65.41	65.43	65.41
Output	163.7	163.79	163.74	163.19	169.22	163.91
Percent change						
Welfare		0.59	0.95	0.02	1.69	0.12
Gross domestic product		0.01	0.03	0.01	0.02	0.00
Output		0.09	0.05	-0.28	3.40	0.16
Consumer price index		-1.12	-2.54	-0.75	1.51	0.11
Wages and salaries		0.81	1.61	0.23	1.76	0.07
Value Added Tax (rate change)		18.25	43.17	7.93	15.28	0.65

TABLE A7.2 PANEL B IMPACT OF DEEP GOODS TRADE LIBERALIZATION (GOVERNMENT REVENUES CONSTANT, VAT ADJUSTMENT)						
	Baseline Values	50% MFN Tariff reduction	Full MFN Tariff elimination	USA Free Trade Agreement	EU Free Trade Agreement	Greater Arab Free Trade Agreement
	(1)	(2)	(3)	(4)	(5)	(6)
Indices						
Welfare index	1.00	1.08	1.08	1.00	1.04	1.01
Consumer price index	1.00	1.03	1.01	0.99	1.02	1.00
Government expenditures index	1.00	1.07	1.33	1.08	1.14	1.01
Wage bill index, real	1.00	1.06	1.07	1.00	1.04	1.00
Billions Dinars, 2010 prices						
Household expenditures	42.5	45.94	46.14	42.61	44.41	42.77
Gross domestic product	65.4	65.44	65.45	65.41	65.43	65.41
Output	163.7	176.29	176.53	163.26	172.50	164.20
Percent change						
Welfare		8.01	8.45	0.28	4.46	0.64
Gross domestic product		0.04	0.06	0.01	0.04	0.00
Output		7.72	7.87	-0.24	5.41	0.34
Consumer price index		2.99	1.49	-0.88	2.16	0.05
Wages and salaries		5.82	6.80	0.43	3.58	0.39
Value Added Tax (rate change)		6.78	33.05	8.34	13.80	0.75

TABLE A7.2 PANEL C IMPACT OF SERVICES TRADE LIBERALIZATION (GOVERNMENT REVENUES CONSTANT, VAT ADJUSTMENT)				
	Baseline Values	Cross-border services (Mode 1)	Cross Border and Domestic Presence (Mode 1 & 3)	Deep MFN Goods and Services
	(1)	(2)	(3)	(4)
Indices				
Welfare index	1.00	1.02	1.03	1.11
Consumer price index	1.00	0.96	0.94	0.97
Government expenditures index	1.00	1.00	1.41	1.32
Wage bill index, real	1.00	1.11	1.13	1.19
Billions Dinars, 2010 prices				
Household expenditures	42.5	43.61	43.98	47.12
Gross domestic product	65.4	65.38	65.39	65.41
Output	163.7	158.47	158.13	169.96
Percent change				
Welfare		2.16	3.11	10.62
Gross domestic product		-0.05	-0.02	0.01
Output		-3.17	-3.37	3.86
Consumer price index		-3.77	-6.47	-2.82
Wages and salaries		11.21	13.03	18.56
Value Added Tax (rate change)		-0.41	41.21	31.74

Notes: Welfare and consumer price indices measured in Hicksian Neutral Equivalent Variation
Values are evaluated at 2010 prices (real values)

C. CGE Model Description

The CGE model is extended, with updated data, from that used in the study by Konan (2003), which considers alternative goods and services trade liberalization scenarios for Egypt and Tunisia including the possibility of enhanced cooperation among Arab League countries. . The Tunisian Input-Output and trade data have been updated. This paper builds upon a growing literature on trade liberalization among MENA countries including Konan and Maskus (2003a, 2003b, 2000, 1997), Hoekman and Konan (2001a, 2001b, 2000), Hoekman, Konan, and Maskus (1998), and Maskus and Konan (1997), Rutherford, Ruström, and Tarr (1997).

The economy is modeled as a system of nonlinear equations which determine industry-level production, factor employment, and intermediate and final demand in which markets clear independently subject to an overall budget constraint. Tunisia is assumed to be small price-taking economy, engaged in trade with four partners, the EU, US, GAFTA, and the rest of the world (ROW). Since Tunisia is plausibly assumed to be a price-taker, domestic policy changes do not alter Tunisia's terms of trade with its trading partners. Among the special features of the model are the specific treatment of barriers to trade and investment in services sectors and the endogenous treatment of instruments of taxation with revenue-neutral government budgeting. The model is implemented in GAMS.

Final output in sector i, Y_i, is produced according to a nested Leontief – CES (constant elasticity of substitution) production function of intermediate inputs, z_{ji} for sectors j= 1, . . ., n, and real value added V_i.

$$Y_i = \min\left[z_{1i} / a_{1i}, \ldots, z_{ni} / a_{ni}, V_i / a_{VA}\right] \tag{0.1}$$

Value added, V_i, is comprised of labor, L_i, and other primary factors, K_i.

$$V_i = [a_{Li} L_i^{(\sigma_i - 1)/\sigma_i} + a_{Ki} K_i^{(\sigma_i - 1)/\sigma_i}]^{\sigma_i/(\sigma_i - 1)} \tag{0.1}$$

In sectors that export, the production for the domestic market D_i is distinguished from that for export X_i according to a two-tier nested constant elasticity of transformation (CET) frontier i.e. firms make the decision on the profit-maximizing level of output, Y_i, in a first stage based on the aggregate composite price they face. Then, in a second stage they decide on the allocation of that output to the domestic and export markets depending on the relative price for domestic and export sales:

$$Y_i = [a_{Di} D_i^{(\varepsilon_i - 1)/\varepsilon_i} + a_{Xi} X_i^{(\varepsilon_i - 1)/\varepsilon_i}]^{\varepsilon_i/(\varepsilon_i - 1)} \tag{0.1}$$

The second-tier CET-nest aggregates total exports, X_i, from exports by destination, x_{ri}, indexed by r (EU, GAFTA, US, and ROW).

$$X_i = [\sum_r b_{ri} x_{ri}^{(\varepsilon_i - 1)/\varepsilon_i}]^{\varepsilon_i/(\varepsilon_i - 1)} \tag{0.1}$$

Intermediate, z_{ji}, and final demand, c_j, in sector j is differentiated by country of origin. Domestic output, d_{ji}, D_{jC}, region r imports, m_{rj}, and total imports M_j are aggregated in the following nested Armington CES functions:

$$z_{ji} = [\gamma_{dj} d_{ji}^{(\eta_j - 1)/\eta_j} + \gamma_{mj} M_j^{(\eta_j - 1)/\eta_j}]^{\eta_j/(\eta_j - 1)} \tag{0.1}$$

$$c_j = [\phi_{Dj} D_{jC}^{(\varphi_i - 1)/\varphi_i} + \phi_{Mj} M_j^{(\varphi_i - 1)/\varphi_i}]^{\varphi_i/(\varphi_i - 1)} \tag{0.1}$$

where composite intermediate and final imports, respectively, M_j^{i} and M_j^C, are given by the following CES aggregators where, for simplicity and clarity, elasticities of substitution are assumed to be the same for intermediate and final imports:

$$M_j = [\sum_r \delta_{rj} m_{rj}^{(\eta_i - 1)/\eta_i}]^{\eta_i/(\eta_i - 1)} \tag{0.1}$$

$$M_j^C = [\sum_r \delta_{rj} m_{rj}^{C\,(\eta_i - 1)/\eta_i}]^{\eta_i/(\eta_i - 1)} \tag{0.1}$$

With constant returns to scale production, firms behave competitively in goods markets, implying that price, p_i, equals marginal cost, c_i, for output within sector i. The domestic policy environment is reflected by taxes and barriers to trade which influence firm decisions. These include: government-revenue producing tariffs on sector j imports from region r, t_{rj}; resource-using barriers on imports in sector j, u_j, (u_j = 0 for non-service sectors); a resource-using barrier on services output due to inefficiencies λ_i (λ_i = 0 for non-service sectors); an economic rent, v_j, or markup generated from imperfectly competitive services markets (v_j = 0 for non-services sectors); and a tax on primary input value added, τ_{Vi}.

$$(1+\lambda_i)c_iY_i = \sum_j \left(1+v_j\right) p_j d_{ji} + \sum_j \sum_r \left(1+u_j+t_{rj}\right) p_{rj}{}^m m_{rji} + \ (1\ +\tau_{Vi})\left(w_K K_i + w_L L_i\right) \quad (0.1)$$

Expenditures by the representative consumer is given by a multi-nested CES utility function. In the top-tier budgeting decision the income elasticity is assumed to be unity with a Cobb-Douglas nested utility function $(\mathrm{U}\ = \prod_i C_i^{b_i}; \sum_i b_i = 1)$ and a constant share of income is spent on the composite commodity. The second budgeting stage involves the consumer deciding how much to spend on domestic versus imported commodities, equation (0.1). Finally, the share of imports from each region is determined by equation(0.1).

Households receive income generated by returns to the fixed endowments of labor, E_L, and other value added, E_K. Households receive rent transfers from their ownership of imperfectly competitive services sectors, v_iY_i. Households finance a fixed government budget deficit, D, and engage in savings through exogenously fixed investment instruments, I_i. The household budget constraint is represented by equation (1.10) in which $\tilde{p}_i$ is the CES aggregator consumer price index which aggregates gross imported and domestically produced commodity costs.

$$\sum_i \tilde{\mathrm{p}}_i \mathrm{C_i} = w_K E_K + w_L E_L\ +\ -\sum_i p_i I_i - D + \sum_i v_i Y_i \quad (0.1)$$

The model simplifies the treatment of government and intertemporal decisions. The government is assumed to spend based on a fixed real income, with preferences reflecting those of households. Scenarios explore alternative assumptions for the adjustment of the value added tax instrument, τ_{Vi}. In the base scenario, the value-added tax is proportionally adjusted endogenously in response to policy shocks to maintain a revenue-neutral government budget. Also explored are scenarios where tariff reductions constrain government expenditures. Throughout all scenarios, real private investment in each sector, I_i, is exogenously fixed at the benchmark level.

As noted above, import and export prices are exogenous following the small-economy assumption. The real current account balance, B, is exogenously given at exogenously given international prices.

$$\mathrm{B}\ = \sum_i \sum_r p_{ri}{}^x x_{ri} - \sum_i \sum_j \sum_r p_{ri}{}^m m_{ri}{}^j - \sum_i \sum_r p_{ri}{}^m m_{ri}{}^C \quad (0.1)$$

Key identities hold as the optimizing behavior of agents subject to their budget constraints assures that income will equal expenditure (i.e .that Walras' law holds). Market clearance is achieved for all commodities and factors and the real exchange rate adjusts to maintain the balance of trade, B constant (so the value of imports equals the value of exports, net of exogenous real capital flows). Given exogenous real benchmark transfers, household and government budgets are balanced. The system of equations describing the model is homogeneous of degree zero in prices (i.e. there is no money illusion) so, given a numéraire, the model only determines relative prices.

Table A7.4 to Table A7.11 describe the base data used to calibrate the model and the domestic policy instruments (tariffs, Resource using barriers, rents) that are changed in the simulations described above in this appendix.

TABLE A7.3A PRODUCTION, IMPORTS, AND DEMAND BY SECTOR, 2010, VALUES IN CURRENT PRICES MILLION DINARS									
	Production	**Importa-tions**	**Consom-mation interméd.**	**CF Menages**	**CF Admini-strations**	**F.B.C.F.**	**Variation des stocks**	**Export-ations**	**Total emploi**
A01.Agriculture et pêche	6,122.1	1,809.8	5568.6	2,683.4	0.0	19.9	-482.6	574.1	8,363.4
C15 . Industries Agro-alimentaires	9,603.8	1,222.0	3818.5	7,629.5	0.0	0.0	135.8	1,256.0	12,839.9
C16 . Industrie du Tabac	190.7	148.2	28.3	1,185.5	0.0	0.0	61.5	49.5	1,324.8
D17 . Textile, Habillement et cuir	7,323.0	4,063.6	3756.9	3,285.1	0.0	0.0	-180.7	5,846.1	12,707.3
D20 . Industries diverses	3,354.3	2,311.4	3179.0	1,839.2	0.0	355.6	0.0	1,197.3	6,571.2
E23. Raffinage de pétrole	323.9	3,675.8	3425.4	1,736.4	0.0	0.0	245.0	250.6	5,657.4
E24 . Industries chimiques	6,796.0	3,175.5	5692.5	1,991.8	0.0	0.0	735.6	2,484.2	10,904.1
E26 . Materiaux de constr., céramique etc	2,082.9	249.9	2037.1	188.2	0.0	0.0	42.4	350.2	2,617.9
F27 . Industries mécaniques et éléctriques	12,694.2	14,579.8	12170.6	3,856.7	0.0	6,002.1	520.7	8,749.4	31,299.5
B11 .Extraction de pétrole et gaz naturel	4,457.5	245.0	1319.3	99.0	0.0	158.3	-10.6	2,658.4	4,224.5
B13 . Mines	1,038.7	335.7	1272.9	15.7	0.0	0.0	15.4	170.7	1,474.8
G40 . Electricité et Gaz	1,878.2	0.0	1357.7	644.8	0.0	0.0	0.0	0.0	2,002.6
G41 . Eau	245.0	0.0	136.5	150.1	0.0	0.0	0.0	0.0	286.6
H45 . Bâtiment et génie civil	8,412.8	0.0	240.6	50.1	0.0	8,625.8	56.1	0.0	8,972.6
I50 . Entretien et reparation	645.7	0.0	278.0	374.4	0.0	0.0	0.0	0.0	652.4
I51 . Commerce	7,310.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
I55 . Services d'hôtellerie et de restauration	5,548.1	0.0	174.0	5,482.9	0.0	0.0	0.0	0.0	5,656.9
I60 . Transports	8,007.3	2,158.5	3676.4	1,665.9	0.0	0.0	0.0	2,076.0	7,418.3
I64 . Poste et telecommunication	3,229.9	85.3	1656.9	1,438.3	0.0	0.0	0.0	432.4	3,527.6
I65 . Services financiers	2,647.0	368.9	1862.3	1,030.8	0.0	0.0	0.0	213.1	3,106.1
I70. Autres Services marchands	10,425.3	906.3	3264.6	6,948.2	0.0	336.2	1.8	1,016.0	11,566.8
J75.Administration Publique	10,705.3	0.0	0.0	197.6	10,507.8	0.0	0.0	0.0	10,705.3
J91.Services fournis par les organ. Assoc	120.5	0.0	0.0	117.2	0.0	0.0	0.0	0.0	117.2
J95.services domestiques	196.2	0.0	0.0	196.2	0.0	0.0	0.0	0.0	196.2
CRT.Correction territorial	0.0	723.4	0.0	-3,163.3	0.0	0.0	0.0	3,886.7	723.4
FIC.Branche fictive PISB	0.0	-1,598.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0

TABLE A7.3B COMPOSITION OF THE ECONOMY, PERCENTAGE BY SECTOR, 2010			
	Production	**Imports**	**Exports**
A01.Agriculture et pêche	5.40	5.25	1.84
C15 . Industries Agro-alimentaires	8.47	3.55	4.02
C16 . Industrie du Tabac	0.17	0.43	0.16
D17 . Textile, Habillement et cuir	6.46	11.79	18.73
D20 . Industries diverses	2.96	6.71	3.84
E23. Raffinage de pétrole	0.29	10.67	0.80
E24 . Industries chimiques	6.00	9.22	7.96
E26 . Materiaux de constr., céramique etc	1.84	0.73	1.12
F27 . Industries mécaniques et éléctriques	11.20	42.31	28.03
B11 .Extraction de pétrole et gaz naturel	3.93	0.71	8.52
B13 . Mines	0.92	0.97	0.55
G40 . Electricité et Gaz	1.66	0.00	0.00
G41 . Eau	0.22	0.00	0.00
H45 . Bâtiment et génie civil	7.42	0.00	0.00
I50 . Entretien et reparation	0.57	0.00	0.00
I51 . Commerce	6.45	0.00	0.00
I55 . Services d'hôtellerie et de restauration	4.89	0.00	0.00
I60 . Transports	7.06	6.26	6.65
I64 . Poste et telecommunication	2.85	0.25	1.39
I65 . Services financiers	2.34	1.07	0.68
I70. Autres Services marchands	9.20	2.63	3.26
J75.Administration Publique	9.44	0.00	0.00
J91.Services fournis par les organ. Assoc	0.11	0.00	0.00
J95.services domestiques	0.17	0.00	0.00

TABLE A7.4A IMPORT SHARE BY TRADING PARTNER, PERCENT 2010						
	European Union	**Libya**	**Morocco**	**Other Greater**	**USA**	**Rest of World**
A01.Agriculture et pêche	30.0	0.1	0.2	2.3	19.3	48.1
C15 . Industries Agro-alimentaires	38.1	0.1	1.8	6.8	8.9	43.3
C16 . Industrie du Tabac	41.5	0.0	0.0	0.1	0	58.5
D17 . Textile, Habillement et cuir	79.4	0.0	0.3	0.9	0.4	18.9
D20 . Industries diverses	79.1	0.3	1.0	3.4	2.3	14.0
E23. Raffinage de pétrole	0.0	100.0	0.0	0.0	0.0	0.0
E24 . Industries chimiques	60.8	0.5	0.4	9.4	5.1	24.0
E26 . Materiaux de constr., céramique etc	66.9	0.0	0.4	10.4	0.6	21.8
F27 . Industries mécaniques et éléctriques	64.2	0.3	0.4	1.7	3.7	29.8
B11 .Extraction de pétrole et gaz naturel	0.0	100.0	0.0	0.0	0.0	0.0
B13 . Mines	21.8	0.0	4.1	10.1	0.2	63.8
G40 . Electricité et Gaz						
G41 . Eau						
H45 . Bâtiment et génie civil						
I50 . Entretien et reparation						
I51 . Commerce						
I55 . Services d'hôtellerie et de restauration						
I60 . Transports	60.9	1.3	0.5	5.3	4.1	28.0
I64 . Poste et telecommunication	60.9	1.3	0.5	5.3	4.1	28.0
I65 . Services financiers	60.9	1.3	0.5	5.3	4.1	28.0
I70. Autres Services marchands	60.9	1.3	0.5	5.3	4.1	28.0
J75.Administration Publique						
J91.Services fournis par les organ. Assoc						
J95.services domestiques						

TABLE A7.4B EXPORT SHARE BY TRADING PARTNER, PERCENT 2010						
	European Union	**Libya**	**Morocco**	**Other Greater Arab**	**USA**	**Rest of World**
A01.Agriculture et pêche	59.3	6.3	12.6	2.5	1.1	18.2
C15 . Industries Agro-alimentaires	38.5	18.1	5.9	8.0	8.7	20.8
C16 . Industrie du Tabac	60.6	9.7	0.2	1.9	0.0	27.6
D17 . Textile, Habillement et cuir	94.9	0.2	0.2	0.4	0.3	4.1
D20 . Industries diverses	53.1	15.1	3.8	6.9	4.9	16.2
E23. Raffinage de pétrole	84.0	0.0	0.0	0.0	8.4	7.6
E24 . Industries chimiques	22.5	6.6	1.4	9.3	1.2	59.0
E26 . Materiaux de constr., céramique etc	25.2	35.5	0.6	21.3	0.4	17.0
F27 . Industries mécaniques et éléctriques	79.4	3.3	1.1	6.7	1.1	8.4
B11 .Extraction de pétrole et gaz naturel	62.9	1.4	0.1	4.4	0.3	31.0
B13 . Mines	62.9	1.4	0.1	4.4	0.3	31.0
G40 . Electricité et Gaz						
G41 . Eau						
H45 . Bâtiment et génie civil						
I50 . Entretien et reparation						
I51 . Commerce						
I55 . Services d'hôtellerie et de restauration						
I60 . Transports	72.6	4.5	1.4	4.7	2.3	14.4
I64 . Poste et telecommunication	72.6	4.5	1.4	4.7	2.3	14.4
I65 . Services financiers	72.6	4.5	1.4	4.7	2.3	14.4
I70. Autres Services marchands	72.6	4.5	1.4	4.7	2.3	14.4
J75.Administration Publique						
J91.Services fournis par les organ. Assoc						
J95.services domestiques						

TABLE A7.5 AVERAGE APPLIED MFN TARIFF	
	Average Applied MFN Tariff
A01.Agriculture et pêche	32.2
C15 . Industries Agro-alimentaires	35.1
C16 . Industrie du Tabac	33.1
D17 . Textile, Habillement et cuir	19.7
D20 . Industries diverses	19.1
E23. Raffinage de pétrole	1.6
E24 . Industries chimiques	4.0
E26 . Materiaux de constr., céramique etc	15.3
F27 . Industries mécaniques et éléctriques	9.6
B11 .Extraction de pétrole et gaz naturel	0.0
B13 . Mines	2.6
G40 . Electricité et Gaz	0.0
I70. Autres Services marchands	1.5

2012 IDB Database, compiled by Kais Feki

TABLE A7.6 TUNISIA NON-TARIFF MEASURES OBSERVATIONS BY CATEGORY (10-DIGIT TARIFF LINE), 2011		
NTMs' categories	**Number of NTMs**	**% of Total**
Technical Measures	63114	92,2%
Non-Technical Measures	5364	7,8%
Total	**68478**	**100,0%**
A - Sanitary and phytosanitary measures	40409	54,1%
B - Technical barriers to trade	12313	16,5%
C - Pre-shipment inspection and other formalities	10392	13,9%
D - Contingent trade protective measures	212	0,3%
F - Price control measures, additional taxes and charges	4876	6,5%
H - Measures affecting competition	276	0,4%
P - Exports measures	6190	8,3%
Total	**74668**	**100,0%**

Source: Kais (2013) using data extracted from TRAINS

TABLE A7.7 BORDER TRADE COST INDICATORS							
	Trade Rank (out of 185)	**Documents for export (#)**	**Time for export (days)**	**Cost to Export (US$ per container)**	**Documents for import (#)**	**Time for import (days)**	**Cost to import (US$ per container)**
Best Practice	1	2 (France)	5 (Denmark)	$435 (Malaysia)	2 (France)	4 (Singapore)	$420 (Malaysia)
Tunisia	**30**	**4**	**13**	**773**	**7**	**17**	**858**
UAE	5	4	7	630	5	7	590
Saudi Arabia	36	5	13	935	5	17	1,054
Morocco	47	6	11	577	8	16	950
Egypt	70	8	12	625	9	13	755

Source: Doing Business 2013, World Bank

TABLE A7.8 TUNISIA BORDER TRADE COST LEVELS				
Exports Duration (days)	**Exports US$ Cost**	**Nature of Procedure**	**Imports Duration (days)**	**Imports US$ Cost**
8	153	Documents preparation	9	168
1	200	Customs clearance and technical control	3	250
2	230	Ports and terminal handling	3	250
2	190	Inland transportation and handling	2	190
13	$773	Totals	17	$858

Source: Doing Business 2013, World Bank

TABLE A7.9 AD VALOREM EQUIVALENTS (AVEs) OF BARRIERS TO TRADE IN SERVICES IN TUNISIA				
Service Sector	**Trade restrictiveness Index (TRI) using Regulatory Barriers Index (non-discrim)**	**% Ad Valorem Equivalent based on Regulatory Barriers Index (non-discrim)**	**Trade Restrictiveness Index (TRI) using Foreign Discriminatory Regulation index**	**% Ad Valorem Equivalent based on Foreign Discriminatory Regulation index**
Maritime services sector	0.325	62.29	0.5647	79.27
Air transportation sector	.	.	0.5147	77,51
Rail transportation sector	0.4125	71.97	0.6375	81.21
Road transportation sector	0.3250	62.29	0.550	78.79
Banking sector	0.2325	15.61	0.2597	17.27
Insurance sector	0.4000	25.32	0.4272	26.79
Mobile services sector	0.3750	23.83	0.4022	26.10
Fixed line services sector	0.4000	5.65	0.4272	6.06
Accounting sector	0.2000	4.57	0.6686	20.63
Auditing sector	0.2375	4.57	0.7816	23.53
Legal sector	0.2250	5.15	0.7566	22.91
Retailing sector	0.2050	10.35	0.4275	6.80

Source: Kais (2012)

TABLE A7.10 TELECOMMUNICATIONS PENETRATION IN MENA								
Indicator Name	**Arab World**	**High Income**	**Egypt**	**Libya**	**Morocco**	**Saudi Arabia**	**Tunisia**	**UAE**
Fixed broadband Internet subscribers (per 100 people)	2.4	27.3	2.2	1.1	1.8	5.6	**5.1**	11.0
Internet users (per 100 people)	29.9	75.8	38.7	17.0	51.0	47.5	**39.1**	70.0
Mobile cellular subscriptions (per 100 people)	96.4	114.1	101.1	155.7	113.3	191.2	**116.9**	148.6
Secure Internet servers (per 1 mil people)	11.6	1067.1	3.0	1.4	4.3	21.5	**19.3**	180.3
Telephone lines (per 100 people)	9.8	47.3	10.6	15.6	11.0	16.5	**11.5**	23.1

Source: World Development Indicators 2011

TABLE A7.11 VALUE ADDED TAX RATES		
	Legal VAT (%)	**Weighted Avg VAT (%)**
A01.Agriculture et pêche	6	0.0
C15 . Industries Agro-alimentaires	6, 12, 18	10.6
D17 . Textile, Habillement et cuir	6, 12, 18	7.1
D20 . Industries diverses	6, 12, 18	5.5
E24 . Industries chimiques	6, 10, 12, 18	4.5
E26 . Materiaux de constr., céramique	6, 12, 18	3.8
F27 . Industries mécaniques et	6, 12, 18	3.9
B13 . Mines	0, 6, 18	0.7
G40 . Electricité et Gaz	6, 12, 18	10.3
G41 . Eau	18	19.2
H45 . Bâtiment et génie civil	6, 12, 18	12.5
I50 . Entretien et réparation	6, 12, 18	2.1
I51 . Commerce	6, 12, 18	0.0
I55 . Services d'hôtellerie et de	6, 12, 18	2.0
I60 . Transports	0, 6, 12, 18	0.7
I64 . Poste et telecommunication	6, 12, 18	7.3
I65 . Services financiers	6, 12, 18	0.9
I70. Autres Services marchands	6, 12, 18	2.3

Source: Data provided by the Ministère des Finances, and the INS