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Tunisia's Development Perspectives

by Hilmar Kaht, Tunis *

Tunisia is at the beginning of the second decade of its development planning. The first decade (1961-1972) was put under the heading of Socialism. The influence of the socialist conception on development planning was reflected by a high share of public investments in total investments as well as intensified furthering of agricultural cooperatives.

Following the dismissal of the Minister for Planning and Economics, Ben Salah, in 1969, the 8th Paraty Congress in Monastir decided in 1971 on a new development strategy for the coming decade, based on a more liberal economic policy and more elbow-room for private initiative. The data for orientation during the coming decade (1972-1981) and the medium-term targets of Tunisia's IV. Four-Year-Plan (1973-1976) are at present discussed by the Council of Ministers and will be passed later this year by the National Assembly.

Small Economic Growth

In spite of a high investment rate of an average of 23 p.c. of the national product from 1962 to 1971, the annual GNP growth rate, at constant prices, reached only about 4 p.c. instead of the planned 6 p.c. Besides, a strong population increase of 2.4 p.c. p.a. was a symptom of the past ten years, as were also stagnation of private per capita consumption, consistently high unemployment at the rate of about 30 p.c. and growing indebtedness abroad, which increased from about DM 525 mn in 1962 to about DM 1,008 mn in 1971. The per capital income in 1971 amounted to tD 145.

The following factors are looked upon as the main reasons for the small growth:

- Stagnation, and even setbacks, of agricultural production; often recurring years of drought and other weather catastrophes each time caused heavy damage to crops.
- Lack of experience in planning and carrying out of investments. Some 75 p.c. of investments were made by the state and by public corporations. Due to an inefficient administration, mis-plannings and waste of resources occurred to a considerable extent.
- High share of indirectly productive investments. More than half of the investment expendi-

ture were infra-structural projects, which can only in the long term lead to production increases.

Imbalance of the regional economic structure. The arid and backward parts in Southern Tunisia warranted substantial expenditure towards improving the regional structure.

Particularly the third of the above mentioned circumstances, which stand in the way of a rapid growth, shows that it would be premature to come to the conclusion, from the result of the past decade, that Tunisia's development policy were a complete failure. To the contrary, elementary provisions, e.g. in the field of energy supply, agriculture, transport and especially education, have created a basis for the future development and a diversification of production.

In spite of structural weakness, stemming e.g. from the regional imbalance and inadequate training of skilled workers, Tunisia's growth potential can be judged favourably. Fairly strong markets within its own borders and abroad coupled with complementary and idle production factors – particularly an abundance of labour and soil – do allow for substantially higher production and exports. The utilisation of this potential requires far-reaching changes of the economic structure and the composition of the investment volume. The Ministry for Planning estimates the realisable growth of the GNP at 6 p.c. p.a.

Population Increase and Job Creation

At present, approximately half of Tunisia's population of 5.4 mn people are under 20 years of age. Projecting the present rate of the population increase onto the year 1981, the result would be a populace of 6.8 mn and double that figure by the year 2000. Family planning is therefore one of the priority problems for Tunisia. The target of demographic policy is a populace of 10 mn people by the year 2000 and not, as just mentioned, 13.5 mn. However, whether the population growth rate will, from the present 2.4 p.c., have been reduced,

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as planned, to 1.3 p.c. by the year 2000, will not only be determined by legislative and institutional measures of family planning but also by social security and educational reforms.

Similar to most LDCs, the opportunity to secure a job is very low also in Tunisia. Only every fifth Tunisian has a place of work (as compared with every second German), but here one has to take the different age structure into consideration. But the estimates are that near enough every third male Tunisian fit to work has not been integrated into the working process.

The 30,000 newly to be created jobs under the investment programme of the IV. Four-Year-Plan will not suffice for the existing and annually to be added labour force. Assuming that 20 p.c. of the able-bodied women will take up work outside their home and that the number of persons over 15 years of age who are being trained will increase by 18,000 annually, the additional demand for jobs will go up by about 50,000 a year. In the Four-Year-Plan the number of emigrants is given even higher than before: at an annual average of 22,500. This figure is to be looked upon as one of the most critical aspects of the entire planning. In view of the recognisable limitation of the absorbing capacity in labour markets, particularly in France, but also in other European countries, it seems hardly realisable to reach this target. Emigration to Libya and Algeria would not offer adequate alternatives. Even under the presumption of the plan being fulfilled, underemployment is bound to remain one of Tunisia's most aggravating problems.

Changed Structure of Investments and Agriculture

The investment expenditure is in the next 4 years to be about equally high as it was in the whole decade 1962–1971, namely DM 6,730 mn. By 1976 the investment quota is set to amount to 23 p.c. of the GNP. Over half of all investments have been for infrastructural projects in the last 10 years, but now the long-term planning earmarks 75 p.c. of investment expenditure for directly productive projects. At the same time, the share of private investments in the total is to be stepped up from 15 p.c. to 40 p.c. On the strength of these stipulations, an increase of the overall economic capital-coefficient from the present 3 p.c. (total economy) and 4 p.c. (without agriculture) to an average of 6 p.c. is expected.

In the agricultural sector there were record crops especially of olives and wheat in recent years as a result of crop cycles and climatic influences. The aim under the IV. Plan is to stabilise agricultural production, until 1976, on the levels reached in 1971. In future, sectors less dependent on climatic conditions – cattle-breeding, the fisheries,

production of fruit and vegetables, whose results have in past years fallen far behind the potential expansion rates – are to be furthered by means of intensified investments. This policy is meant to meet the substantially greater demand for food, stemming from the population increase and tourism, which, in turn, has in recent years resulted in serious bottlenecks and price increases for food. The following measures are mentioned as main tasks for agriculture:

- The setting up of an effective consulting service for the farmers;
- the overcoming of the difficulties resulting from the ownership distribution of agricultural land, with the foremost aim better to make use of existing irrigation installations;
- organisational improvement in the sphere of credits and loans for agriculture.

The future development will also be strongly influenced by the still rather conventional attitude of the farmers, the large number of privately owned small holdings and by extraneous factors such as climatic fluctuations and crop cycles. No quick results are therefore to be expected from the envisaged development measures and institutional reforms in agriculture.

Oil, Tourism and Manufacturing Industry

Tunisia's production of mineral oil in 1972 was 4 mn tons – compared with Libya's 105 mn tons in the same year – no more than a marginal quantity. The estimates for 1981 are 12 to 15 mn tons. Tunisia's expansion of oil production depends very largely on the success of the search for new sources. Though there are signs of additional reserves, both time and quantities of such discoveries are uncertain. There are also phosphates, iron ore, lead, zinc and to a lesser degree some other minerals to be found in Tunisia. Up to now, however, neither the quantities nor the quality of Tunisia's mineral resources have secured a firm position on world markets for themselves.

The Tunisian government has great hopes for the further development of tourism. Tunisia has gained from the European tourists' boom more than any other country in North Africa. Over 7,000 miles of Mediterranean coastline helped towards this upswing as much as have done also the remainders of the country's cultural past. In 1972, 780,000 tourists travelled to Tunisia. While tourism contributes no more than about 3 p.c. to the Tunisian GNP, it nevertheless is important as a foreign exchange earner for the balance of payments. Lest there be economic or political disturbances of the future trend of world tourism, the hotel capacity in Tunisia is to be increased from

the present 43,000 to 77,000 beds by 1976, and the foreign exchange earnings are expected to go up from DM 350 mn in 1971 to DM 620 mn in 1976. It is however necessary for the reaching of these targets to eliminate the imbalance between hotel capacity and tourism's infrastructure. In cooperation with the World Bank, Tunisia plans at present to improve road building, water supply and telephone services in six of the country's tourist regions.

Regardless of all efforts towards industrialisation Tunisia is still largely an agricultural land, and just about half the population depends on agriculture for its livelihood. The industrial development has largely been concentrated on the processing of agricultural products, phosphates and the fields of textile and cellulose manufacturing. An accelerated industrialisation would seem necessary in order to create more opportunities to work. The IV. Four-Year-Plan envisages, for industrial expansion, the extension of credits to the economy, the provision of industrial zones and state participation in training programmes. Priority is to be given to labour-intensive production sectors, in which fields Tunisia enjoys substantial cost-advantages. Particularly high growth rates are anticipated for the textile, the chemical, sections of the mechanical and electro engineering, the timber and the paper industries.

Foreign Direct Investments

The envisaged expansion of the manufacturing industry is largely based on expectations of a high participation of private industry and foreign direct investments. The Tunisian government tries by way of aimed investment promotion to attract foreign investors. Under the Investment Laws of 1969 re-invested profits are granted extensive tax exemptions. Other advantages can also be negotiated, such as for instance favourable rates of depreciation, the taking over of infrastructural work by the state, granting of temporary production and distribution monopolies.

The "Code des Investissements" of 1969 in 1972 has been supplemented by a Law for the promotion of export-intensive industries, which tries, apart from the mobilisation of domestic capital, also to attract more foreign capital and, simultaneously, to improve the trade balance by stepping up exports. Companies manufacturing exclusively for export will benefit, from the outset for a period of 20 years, from extensive fiscal concessions, such as exemption from corporation tax and tariffs on imports necessary for export productions. An "Agence de Promotions des Investissements" is to be set up under the auspices of the 1972 Law, it is to give information to potential direct investors about the promotion of in-

vestments, markets and selling prospects and render the communication between investors and Tunisian official quarters easier.

No other country in the Mediterranean area offers at present as favourable conditions as does Tunisia to firms in the EC interested in labour-intensive production. Tunisia has been compared as an oasis of economically liberal thinking in North Africa with the Lebanon in the Near East. Aside its traditional investment attractions

- political and economic stability,
- good communication connections internally and with Europe,
- low wages,
- tariff preferences for the import into the EC,
- guarantees, under international law, for foreign direct investors.

Tunisia now offers further advantages under an investment legislature providing large-scale tax and tariff exemptions and other facilities.

Foreign Trade Balance

Tunisia depends largely on the interlacing of foreign trade and payments. The share of exported goods and services in the GNP amounts at present to 30 p.c. In the medium-term exports are expected to grow at an annual rate of 7.5 p.c. and thus faster than imports (6.4 p.c.). In this manner, the deficit in the balance of current accounts will be reduced. Similar to the situation in most LDC's Tunisia's exports consist to a large part of commodities; in fact to about 50 p.c. The prospects for a balance of payments improvement depend largely on the development of mineral oil and olive oil, which together amounted in 1972 to more than 60 p.c. of Tunisia's total exports. The income from tourism and remittances by Tunisian workers abroad may bring increasing foreign exchange revenue also in future.

Apart from all this, the foreign trade development of Tunisia will essentially depend on the conditions of the new Treaty of Association with the EC, which will become valid in 1974. More than 60 p.c. of Tunisia's foreign trade is effected with the countries of the enlarged EC.

Questionable Tariff Preferences

According to expectations, following the effective date of the 1969 Treaty of Association, Tunisia's trade with the EC increased much more than did its trade with the rest of the world. At the same time, however, the counter-preferences and the limited range of goods falling under the Agreement have resulted in a doubling of Tunisia's trade deficit with the Community of the Six be-

tween 1968 and 1972. The reason for this development is the fact that the principle of duty-free import into the EC has been departed from; such important produce as wine and its products, cereals, fruit and vegetables do as yet not fall under the Agreement and there are extensive exceptions also for the import into the EC of such industrial goods as iron and steel manufactures and oil refinery products, whose imports are restricted to 100,000 tons annually. Tendentially the enlargement of the EC by the new members intensifies this imbalance.

In the current negotiations with the EC Tunisia demands essentially three things:

- The scaling-down of the European protectionism — particularly important is the liberalisation of the EC's import of agricultural products — and the reduction of the size of counter-preferences;
- European structural measures for the promotion of the Tunisian economy — sectoral aid for the manufacturing industry and regional support for the Southern Tunisia are aimed at;
- Wider opening of the EC's labour market and better training facilities for Tunisian workers.

Integration Efforts

The aimed-at economic integration of the Maghreb states including Libya and Mauretania, both of which are on a level of development comparable to that of Tunisia, could bring in its wake the opening up of big markets for Tunisia's economy and better selling chances, which would be essential for utilising the advantages of mass production, better competition and the establishing of efficient production units. The foundation of a Tunisian-Algerian Chamber of Commerce at the end of last year may be looked upon as a step forward on the road to closer economic co-operation. On the occasion of the visit of the Libyan President, Gaddafi, in December 1972, President Bourguiba stated in Tunis that the granting of mutual trade preferences was one of the most important immediate aims of economic policy. In 1972, the trade with the Maghreb countries amounted to about 7 p.c. of Tunisia's total exports, and one p.c. of its total imports. Contrary to political lip-service of the involved governments towards a Maghreb community, the results were but meagre in recent years, which leads to the expectation that no rapid progress will be achieved with integration.

Development Aid and Foreign Indebtedness

Tunisia's own potential will also in coming years not be sufficient to solve in time the employment problem without development aid. If the national savings rate, as foreseen under the IV. Plan, could

be stabilised, on the 1972 level of 20 p.c. of the GNP, 80 p.c. of the planned investment volume could be financed from domestic sources. The gap between internal savings and the necessary economic and social investments will also in future have to be bridged by an inflow of foreign public and private capital. In 1971 the foreign indebtedness of about tD 1,008 mn was equal to roughly 40 p.c. of the GNP. 50 p.c. of the GNP is considered the long-term limit for the external debt. The debt service (amortisation and interest payments) is not to exceed 20 p.c. of the total foreign exchange income (1971: 16 p.c.).

It remains to be seen whether the targets of the IV. Four-Year-Plan will be reached. The margin for the economic development could be widened by the promotion of private initiative and the intensification of cooperation with foreign capital and technical experts. Total economic growth could, at 6 p.c., be higher than in the average of the last 10 years as a result of the changed infrastructure. But a rapid speeding-up of growth can not be reckoned with. In fact, there are, for 1973, signs of a slowing down of the growth rate for reasons of crop cycles and general economic conditions.

The IV. Four-Year Plan could play a leading role towards the realisation of the necessary reform of the economic structure. But in the government draft of the short- and medium-term economic planning so far submitted one still misses a conception of, or decisions about, the instruments to be deployed in development policies. If in the next few years there should be no noticeable successes, specially in the field of employment, the danger would then become apparent of growing discontent about wages and general working conditions among wide circles of the population and the students, such as the recent past has already seen in the shape of quite a few demonstrations and strikes — this is, in the event of a short-term growing unemployment rate and structurally caused price increases, specially for food. There is even more to it than this. In the wake of the flight of the former Minister for Economics and Planning, Ben Salah, last February, the controversy within the Destour Party about the Constitutional reform and the legal stipulations of the succession to President Bourguiba has once more come to the fore and, indeed, brought about an internal confidence crisis. This could result in a negative causal chain of events; greater political risks, falling domestic and foreign investments and further rising unemployment. It follows, therefore, that the timely passing of the IV. Four-Year Plan as well as the speedy going-ahead with the projects and their efficient carrying-out are vital pre-conditions for the long-term success of the new development strategy for the second decade.