EXECUTIVE FORUM ON
NATIONAL EXPORT STRATEGIES

EXPORT OF SERVICES: HYPE OF HIGH POTENTIAL?
IMPLICATIONS FOR STRATEGY- MAKERS

5-8 October 2005
Montreux, Switzerland

Export Dynamics - The Service Sector in Tunisia

A paper contributed by
Najoua Rifi Gharbi
Administrative Advisor
Service Sector
Tunisian Export Promotion Centre (CEPEX)
Tunisia

EXPORT DYNAMICS – THE SERVICE SECTOR IN TUNISIA

Introduction

Tunisia, a developing country, is marked by its economic performances characterized by a favorable macro-economic environment thanks to a careful economic policy focused on the consolidation of the market economy and the private initiative by reinforcing the competitiveness of the economy and its anchoring in the world circuit.

The economic growth reached an annual average of 5.3% during the 9th plan*[1] exceeding the achievements of the 8th plan*[2] where the economic growth rate was only 4.6% per year.

This growth is partly due to the evolution of the services sector, which recorded an average growth rate of 6.9% during the 9th plan, thus exceeding the growth of GDP of 1.6 point.

As for as the manufacturing and agricultural industry sectors are concerned, the annual average evolution rates were respectively around 6.1% and 2.6%.

By realizing 52% of the GDP during the period of the 9th plan, the services sector consolidates its share in the country's economic growth occupying more important place in the Tunisian economy and contributing to the efforts of diversification of country's productive structure.

Main Indicators of the Sector

The services sector plays a major role in the Tunisian economic development process by its capacity to stimulate the growth pace, to promote export and to create jobs.

In fact the services sector grew at a greater pace than the GDP between 1999 and 2004 reaching respectively 6.3% and 6.9% and its contribution to the GDP increased from 40.9% in 1999 to 43.2% in 2004.

Its share in the employment creation was 63.3% in 2004 mainly in transport tourism, financial services and high tech. The services sector in Tunisia employs 52% of the working population against 29.5% for manufacturing industries.

Investments are increasing rapidly surpassing those in other sectors; the services sector ensures 53 % of the total of the investments realized in 2003 against 13.5% for manufacturing industries and 10.3 % for agriculture and fishing sectors.

The services sector is attracting more FDI; we count currently 370 foreign companies operating in Tunisia, which represent 11% of the total FDI and 14% of the overall foreign companies established in Tunisia.

On the level of the foreign trade, surplus of the sector's trade balance compensates the deficit of the balance of goods and contributes to limit the deficit of the current balance. In 2003, exports of services exceeded two billion dinars what accounts for 36.6% of the whole export earnings.

According to the 2003 report of the central bank, the balance of other services (the services other than transport and travel) recorded a balance of 116 MTND for the year 2003 against only 41 MTND for the year 2002. We note the emergence of new services which have remarkable dash and have a promising future for the whole sector.

---

[1] Economic and social development plan (1997-2001)
[2] Economic and social development plan (1992-1996 Development plan (1997-2001)

The balance of other services also reflects the existence of an export potential of services which can be an additional lever for the development of Tunisian exports which are confronted with major challenges due to an international context marked by the liberalization of the exchanges and the tough competition.

According to an evaluation report of the services sector's exports in Tunisia elaborated by the International Trade Center, Tunisia has prospects for export in the sectors with high added value presented as follows:

Services with high potential in the short term:

- Computer services and connected services;
- Engineering services and integrated engineering services, urban cleansing services and landscape architecture, market studies and surveys;
- Publishing;
- Health care establishments;
- Paramedical centers;
- Training services; and
- Judicial services and fiscal counselling.

<u>Services Exports – Tunisia's Assets</u>

Tunisia has successfully adjusted to the economic and technological changes by favouring investments aiming the modernization of the infrastructure and the improvement of the business environment; consequently, the services sector in Tunisia has great export potential thanks to its comparative advantages (cost, expertise...).

In addition to its geographical position and to its political stability, Tunisia has a qualified human resources. In fact the human resources are highly skilled and costs are relatively low compared to competitors.

Moreover, Tunisia has numerous preferential trade agreements that allow Tunisian products to infiltrate the international markets. These trade agreements include:

- Member and Founder of the World Trade Organization (WTO);
- Association Agreement with The European Union;
- Arab Free-Trade Agreement within the Arab League;
- Maghreb Preferential Trade Agreements;
- Bilateral agreements with Egypt, Jordan, Syria, Morocco, Libya & Syria;
- Abuja Treaty; and
- Generalized System of Preferences with the United States, Canada, Japan, Switzerland and Austria.

According to the World Competitiveness Report published by the World Economic Forum in collaboration with the University of Harvard, Tunisia is classified first in Africa with regards to the quality of human resources. This performance is the result of a clear-sighted policy, making human resources the angular stone of work development of the country. In its measurements of structural reforms, Tunisia founded an attractive legal framework for FDI, which represents an important asset in addition to the competitive wage costs comparing to our direct competitors. On an other side, we notice that the structures of framing and support in particular the Exports Promotion Center (CEPEX), which attaches a particular importance to the services sector through its interventions on the level of the dissemination of information, the training/sensibilization or the technical and financial support through Famex[3] and Foprodex[4]. During its first program, which was spread out over five years, 111

[3] Fund of access to foreign markets.
[4] Fund of Export Promotion.

companies of the services sector from a total of 669 companies took advantage from the financial assistance of Famex, which allowed them to achieve marketing plans and other promotional activities.

The Main Pillar of the Promotion of Services Exports

The main goal of the Tunisian policy in terms of services is the promotion of exports by diversifying the Tunisian supply, favouring high added value services, and consolidating the emergence of a new generation of exporters in order to promote the triangular partnership to conquer new markets (Africa, Middle East…).

Tunisia must assure a follow up of services exchanges by setting up a business intelligence system and by targeting the international financial backers.

Finally, the promotional tools must be adapted to the particularities of the services activities and the information about the export opportunities (International call for tenders, partnership…).

Opportunities and Challenges

The technological revolution and the new tools of communication and information transformed the world into planetary village.

The signature of the free trade agreement with the EU which includes the exchange of goods as well as of services (articles 31-32) and Tunisia's adhesion to the WTO confirm the commitment of Tunisia in the process of liberalization and globalization, which offers great opportunities to the export of goods and services.

Opportunities

The health sector, for example, presents an attractive and competitive sector:

- Medical practice equivalent to European standards.

  Tunisia's performance in the field of medicine assured by an adapted infrastructure and professional qualifications that are rigorous and progressive, as well as the country's solidly anchored tourism tradition, has created an ideal environment to welcome foreign patients who are accustomed to modern developed structures.

- Competitiveness

  Although the Tunisian health care sector is well developed and modern, the cost of interventions and care is low compared with industrialized countries. For this reason increasing numbers of non-residents, in particular tourists and residents of neighboring countries come to Tunisia for programmed health care treatment, including: cardio vascular, orthopedic, ophthalmologic, surgical interventions, esthetic (plastic surgery), shape-up physical conditioning, etc.

- Proximity
  In the heart of the Mediterranean, at the crossroads between Africa, the Middle East and Europe, Tunisia, is less than three hours by air to major European and or African cities, which are served via regularly scheduled or charter flights. Furthermore, the infrastructure and cultural tourism favor a pleasant and enjoyable visit for foreign patients in Tunisia.

Testimonials
AFP/Health
Tunisia ambitions to become a « Health Care destination » for foreigners, in particular British citizens. Four private polyclinics were selected to welcome patients from England, though already the majority of clinics (over 2 000 beds) and practices (3 500) offer their services to foreign

customers, with a large range of specialties in cardio-vascular, orthopedic, urology and ophthalmologic surgery.

Appearing in the series on “Pharmaceutical regulation” N° 10, edition 2003 published by the World Health Organization (WHO): *“Controlling the costs of imported medicines, Case Study: Tunisia”*

The Tunisian system for medicines imports coalesces the controlling of costs, the need to make medicines accessible to the majority of the population, the strong presence of public sector structures and maintaining the freedom of private sector activity. It provides an efficient model for countries whose medicines are supplied predominately through importation and who might be interested in developing a similar system.

Featured in the television magazine on French TV channel TF1 « The right to know » aired January 13, 2004 the program consecrated to the beauty and shape-up industry featured Tunisia as the new destination for plastic (aesthetic) surgery for the French.

The association "Operations Abroad", based in Manchester, England, last year listed Tunisia among the 21 health care destinations proposed to British citizens.

The engineering, studies and consulting sector presents an attractive and competitive sector too.

Comparative advantages

- A technical capacities level comparable to Western engineering firms.
- Over 30 years experience in studies, feasibility, realization and renovation projects.
- Low production costs and an accrued competitiveness.
- International experience and in particular African.

Examples of exporting expertise for the realization of international projects:

- Renovation and expansion of the St Louis Airport (Senegal).
- Study and realization of the headquarters of the Algerian Ministry of Energy in Algiers.
- Solid waste management for the city of Djibouti.
- Base and detailed study for the pipeline for SHELL in Nigeria.
- Potable water system for the city of Faya Largeau (Chad).
- Large projects realized in Tunisia and abroad.

Construction and Civil Engineering Sector

The construction and civil engineering sector holds a major position in the economic and social fabric of the country in terms of the high level of investment and the number of employment opportunities in the sector and its impact on other sectors of the national economy.

The sector counts an estimated 2,500 enterprises operating in the different specializations of the sector and which represent around 250,000 direct jobs of which close to 10,000 are engineers and superior technicians.

The enterprises of the sector have for close to a decade adhered to the National Modernization and Upgrading Program, focusing in particular on human resources development, the introduction of modern management systems and the acquisition of state-of-the-art equipment.

Today, enterprises of the sector have professional competence and are high performance, realizing major projects for road work, highways, airports and ports, and is currently involved the realization of major infrastructure projects in Africa.

Challenges

- International competition with developing countries that have the same potential in export of services.
- The small and medium size of Tunisian companies.

Taking up challenges means succeed the bet of export and particularly the export of services by competitiveness and productivity.

To start the process of the competitiveness of the services sector, the 10th plan suggests the following actions:

- Intensification of the reforms regarding the public companies in particular in the transport sector;
- Reinforcement of the tourism sector and the promotion of leisure activities;
- The encouragement of services with high added value and strong export potential; and
- The development of new services related to the improvement of the total productivity of production factors (communication and information techniques).

Within this framework, CEPEX in collaboration with UTICA (Tunisian Union for Trade Industry and Handicraft) organized the first International Exhibition of Services Exports (SISE 2004), which was held in Tunis on 2 - 3 December 2004 (www.sise-tunisia.com). It is a first initiative and a first experience, which proved to be successful.

Notes

FAMEX

- The FAMEX, Funds of Access to the Markets of Export, is a project of the Ministry of Trade and handicrafts.
- It aims at ensuring the development of exports by the diversification of the export products and markets and the enlargement of the base of the exporting apparatus.
- The FAMEX started its activities in 2000. A second program, the FAMEX II, is being prepared.
- It has as specific objectives: to help SMEs and to achieve their Export Development Plan with the help of technical and financial aid.

FOPRDEX

- The “FOPRODEX” is a fund of assistance and support for export, created in 1984.
- The FOPRODEX supports the exporting companies by according subsidies and loans for the actions, which are likely to improve promotion of their products and to increase their potentials of export.