Trade, SMEs and Development in Tunisia

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ITC 2015
Motivation

- Trade is good for both developing and developed countries
  - Empirical evidence from macro data

- Firms exposed to trade are performing well
  - More productive
  - More profitable
  - Create more jobs

- Recent empirical evidence on developed countries

- Less research on
  - Developing countries
  - Importers
  - Services
Motivation

• Impact of the exposure to international trade in Tunisia on
  – Trade creation
  – Productivity
  – Profitability

• Focus on
  – onshore non exporters and importers
  – onshore exporters and non importers
  – onshore exporters and importers
  – offshore exporters and non importers
  – offshore exporters and importers

• Use of an unique firm level data in Tunisia

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Trade policy in Tunisia

• 1972: Creation of an offshore regime

• Mid eighties:
  – Unilateral tariff liberalization
  – Reform of import procedures
  – Removal of import restrictions

• WTO member since its creation

• Preferential trade agreements
  – EU
  – GAFTA
  – Etc.
Fact #1:
An overall increase in Tunisian exports
Fact #2: A relatively open country
Fact #3:
Lower performance in attracting FDI

The average of FDI inflows as share of GDP from 2000 to 2010
Firm’s dynamic in Tunisia

Data
- Tunisian registry of firms (RNE)
- Collected by the National Institute of Statistics in Tunisia (Institut National de la Statistique)
- Data on employment, age and main activity of all registered private firms
- Firm level imports and exports at HS6 level (from customs)
- Period 2000-2010
Fact #4: SMEs or MSEs?

• **96%** of firms are **micro**
  – less than 6 employees

• **2,7%** of firms are **small**
  – between 6-49 employees

• **0,5%** of firms are **medium**
  – between 50 and 199 employees

• **0,15%** of firms are **big**
  – more than 200 employees
Fact #5: Offshore’s importance

• Offshore onshore dichotomy
  – Imports inputs duty free
  – No specific regulations
  – No taxes
Fact #5: Offshore’s importance

• The importance of the offshore sector
  – 2% of firms
  – 29% of total employment
  – 20% of total turnovers
  – 78% of total exports
Fact #5: Offshore's importance

Figure 1: Shares of firms by activity 2000-2010

- % of Offshoring firms
- % of exporters and/or importers

Real Estate, Rentals and Business Services
- 16
- 23

Trade
- 5
- 46

Other industries
- 9
- 62

Machinery and Mechanical equipment, electrical and electronic...
- 11
- 76

Chemical industries
- 11
- 90

Textile, clothing, leather and footwear
- 6
- 85

Agricultural and food industries
- 6
- 59

Extractive industries
- 2
- 74

Agriculture, hunting and fishing, forestry, aquaculture and fish
- 5
- 41

Figure 2: Shares in employment by activity 2000-2010

- % of employees employed by offshoring firms
- % of employees employed by exporting and/or importing firms

Real Estate, Rentals and Business Services
- 9
- 8

Trade
- 1
- 3

Other industries
- 2
- 5

Machinery and Mechanical equipment, electrical and electronic...
- 15
- 24

Chemical industries
- 6
- 24

Textile, clothing, leather and footwear
- 24
- 27

Agricultural and food industries
- 2
- 6

Extractive industries
- 4
- 20

Agriculture, hunting and fishing, forestry, aquaculture and fish
- 3
- 9
Fact #6: MSEs forever

Figure 3: Percentage of firms registering growth
2000-2010

Figure 3: Percentage of firms registering growth 2000-2010
Fact #7: Traders are drivers of job creation

[Graph showing trends over time]

- OffShore
- total
- Exporter
- Exporter and/or importer
Measures used

- Net trade creation
  \[ g_{ist} = 2 \left[ \frac{E_{ist} - E_{ist-1}}{E_{ist} + E_{ist-1}} \right] \]
  Where \( E_{ist} \) is employment in firm i of type s at time t

- Productivity: Gross output per worker
- Profitability: Profits per worker respectively
### Result #1: Effects of firm’s international trade status on net job creation

<table>
<thead>
<tr>
<th></th>
<th>All firms</th>
<th>Firms with more than one employee</th>
<th>All</th>
<th>Manufacturing</th>
<th>Non manufacturing</th>
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<td></td>
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<tr>
<td>Onshore non exporting and importing firms</td>
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<td>0.02***</td>
<td>0.085***</td>
<td>0.058***</td>
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<td></td>
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<td>(0.0017)</td>
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<td>(0.006)</td>
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<tr>
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<td>-0.012*</td>
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<td>(0.002)</td>
<td>(0.05)</td>
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<td>0.008</td>
<td><strong>0.19</strong>*</td>
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<td><strong>0.07</strong>*</td>
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<td>(0.002)</td>
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Result #2: Effects of firm’s international trade status on productivity

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<th>Services</th>
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<td>(0.006)</td>
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<td>(0.021)</td>
<td>(0.031)</td>
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ITC 2015
### Result #3: Effects of firm’s international trade status on profitability

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Conclusions

- Trade exposed firms are creating more jobs, are more productive and more profitable

- Two way traders are the most performing firms
Conclusions

• Offshore firms tend to create more jobs compared to onshore firms

• but they are less productive and less profitable than onshore firms
  – no knowledge transfer?
Conclusions

• **Importers perform better**
  – Good quality inputs?
  – More integrated in the international markets?
Conclusions

• **Firms in services perform well**
  – Exporting offshore firms in services contribute to employment more than in manufacturing
  – More profitable and more productive than in the manufacturing sector