

INDIA'S TRADING OPPORTUNITY WITH TUNISIA

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INTRODUCTION:

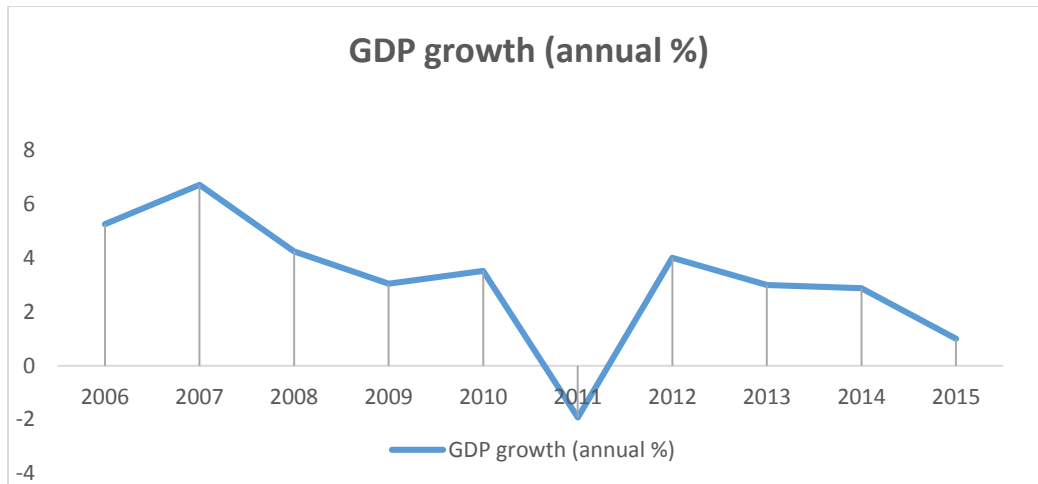
Tunisia has been one of the most stable and predictable economies of the ‘Middle East & North Africa (MENA)’ region for past decade. This fact spans two realities- one, macroeconomic stability of the nation builds a hope for growth in future, and two, the economy hasn’t shown any drastic spurts of growth in recent past. Tunisia experienced a long period of moderately high growth, before the revolution of 2011. There have been shifts in social and economic paradigms for Tunisia since.

India and Tunisia have maintained cordial trade and diplomatic relations for decades. Although, Tunisia is by itself a small economy, comprising a stagnant share in world economy; its trade with India is also not significant. This report seeks to find out how this case can be flipped.

Section I glances over the important trends in Tunisian economy, and correspondingly, India’s importance in it. Section II explores the scope of trade between India and Tunisia. This section is divided into three parts. First two parts focus on scope in trade of ‘products’ and ‘services’ respectively. Third part deals with the current tariff structure and agreements between the two nations. Section III, finally puts forth policy recommendations to guide the path of implementation of scope, identified in section II.

I. TUNISIA- AN OVERVIEW OF THE ECONOMY:

- Tunisia's GDP growth rates for last ten years:

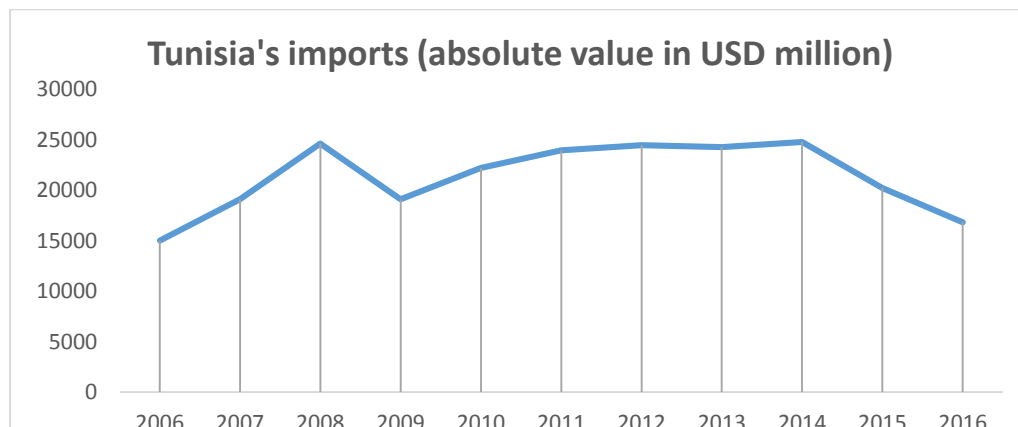


Graph 1: Tunisia's GDP growth rate 2006-2015

Source: ITC Trade Map Database

Tunisia's annual GDP growth rate surged to 6.7% in 2007, and have been following a stagnant or downward trend since then. A sharp decline can be observed in 2011, owing to the Tunisian uprising of 2011. Post 2011, the prospects have not been very encouraging, with the GDP growth rate being less than 1% for 2015.

- Tunisia's total imports in absolute USD value, (2006 to 2016)

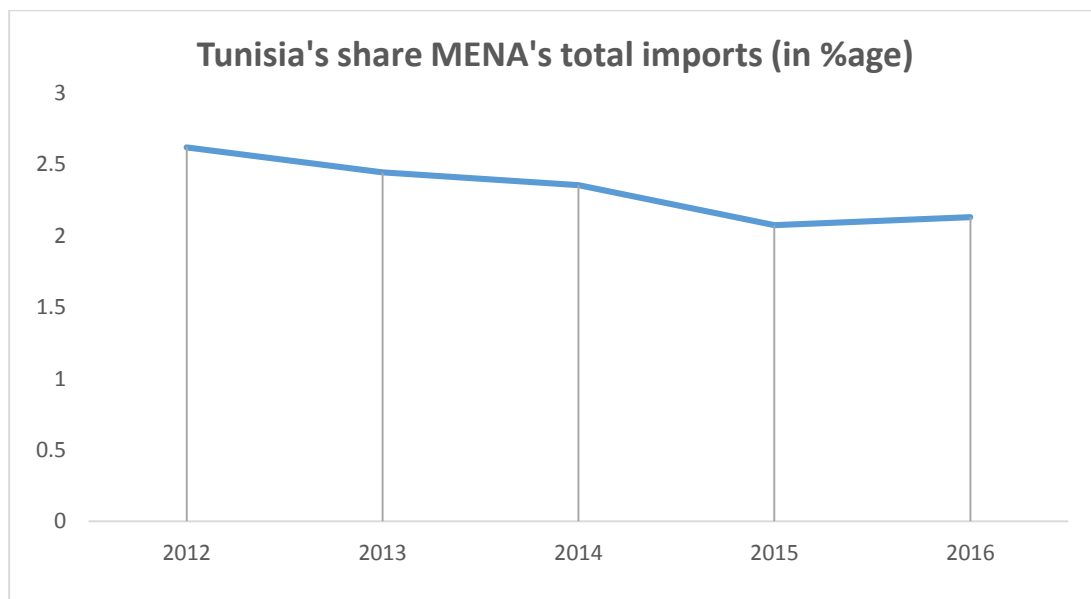


Graph 2: Tunisia's total imports (USD million) 2006-2016

Source: ITC Trade Map Database

A similar stagnancy can be observed in the total imports of Tunisia for past decade. A drastic decline can be observed in the last two years, showing a fall of close to USD 4000 million annually. The stillness in GDP growth and imports should be understood in complementarity.

- Tunisia's share in imports of 'Middle East & North Africa' (MENA¹) region:



Graph 3: Tunisia's share in MENA's total imports 2012-2016

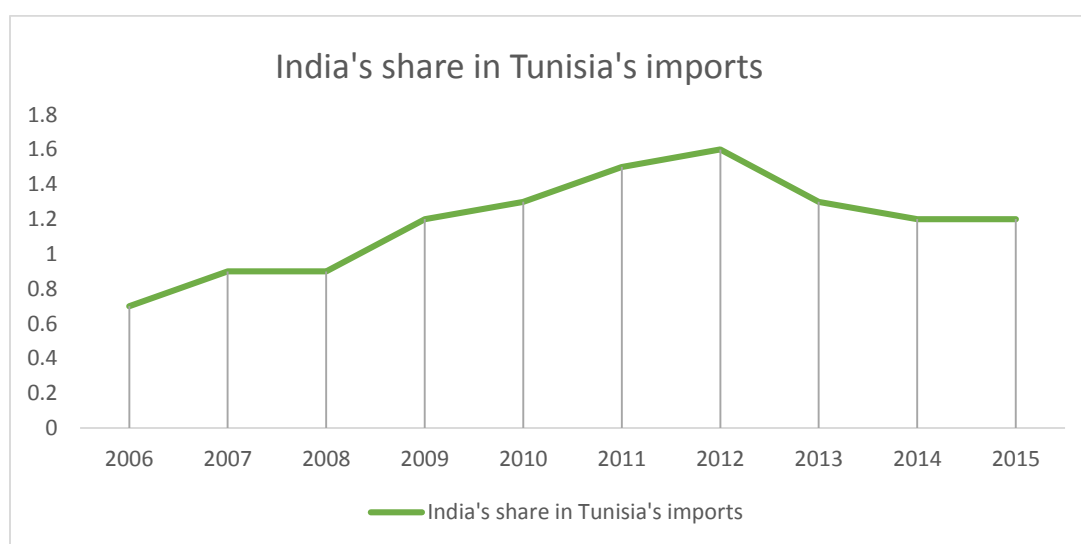
Source: ITC Trade Map Database

Graph 3 shows Tunisia's share in MENA's total imports, for last four years. Here too, no significant movement is observable. The share remains below 2.5%, falling from 2012 to 2015, rising minutely in 2016. This analysis is included to understand the importance of Tunisia in the

¹ MENA includes Qatar, Kuwait, Saudi Arabia, Morocco, Malta, Israel, Iran, Algeria, Lebanon, Tunisia, Libya, Oman, Bahrain, Iraq, Egypt

MENA regional bloc. As we can see, the share isn't very significant, but the stability in it motivating, in view of this otherwise unstable bloc.

- India's share in Tunisia's imports:



Graph 4: India's share in Tunisia's imports 2006-2015 (%)

Source: ITC Trade Map Database

India's presence in Tunisia's trade picture has never been very significant for the last decade. India's share in Tunisia's exports has stayed in the range of 0.7% to 1.6% for last 10 years. There is a sense of stagnation when we look at trade relations between India and Tunisia. After a slow increase from 2007 till 2012, the share has been declining. On a positive note, this reveals that there is ample scope for growth of trade relations between India and Tunisia.

The first task, hence, is to improve India's presence in Tunisia's total imports. This report seeks to understand- how?

- Tunisia's share in India's imports:

It would also be of interest to know what India imports from Tunisia. Out of total imports value of USD 136 million² in 2016-17, "Phosphoric Acid and Polyphosphoric acids (HS code 280920)" accounted for USD 74 million worth of imports. This is the only significant item that India imports from Tunisia. Overall, Tunisia comprised of only 0.029% share in India's total imports in 2016-17. The share was 0.038% for 2015-16, which is equally insignificant. Out of India's total imports of "Phosphoric Acid and Polyphosphoric Acids", Tunisia contributed 5.06% share in 2016-17 and 5.5% in 2015-16, again pointing towards not very bright prospects of negotiation.

- Foreign Aid received by Tunisia:

Post the revolution of 2011, western developed nations, European Union and Tunisia's western African partners have pledged to support the nation in maintaining its young democracy. Tunisia has been under economic distress in terms of high youth unemployment rates and dwindling GDP growth rates. On security's end, it has observed active terrorism, due to ISIS's presence around the region. Due to these reasons, Tunisia is gearing towards becoming one of the top aid receiving nations. From the US- Tunisia received a total of 61.4 million USD³ from USA in financial year 2015, requesting 140.4 million USD for financial year 2017. In its recent "Tunisia 2020 Summit", a total of 14 billion USD was pledged for aid to Tunisia. Some of the major aid contributors-

- Qatar has pledged to provide 1.25 billion worth of aid to Tunisia
- France has pledged for 1.23 billion USD of loans and 26 million USD donations
- European Union has promised to mobilize 860 million USD in Tunisian economy, plus 3.1 billion USD loans through European Development Bank, by 2020. Along with this, a new FTA is expected between the EU and Tunisia.

What this discussion tells us is that trade and investment climate of Tunisia, in coming years, will be highly impacted by foreign aid provided to it.

² Figures from Import Export data bank, Ministry of Commerce & Industry

³ The Federal Budget and Appropriations for Fiscal Year 2017, Project on Middle East democracy.

II. INDIA AND TUNISIA- SCOPE OF TRADE:

PART A: GOODS' TRADE

Product Code	Product Label	Tunisia's imports from world	Tunisia's imports from India	India's exports to world	Indicative potential trade, USD million
		Value in 2016, USD million	Value in 2016, USD million	Value in 2016, USD million	
TOTAL	All products	16827.029	248.268	260326.91	16578.761
271012	Light oils and preparations, of petroleum or bituminous minerals which >= 90% by volume	507.987	0	10665.745	507.987
271019	Medium oils and preparations, of petroleum or bituminous minerals, not containing biodiesel	478.595	0.185	16083.651	478.41
870322	Motor cars and other motor vehicles principally designed for the transport of persons	264.32	44.442	3396.125	219.878
853690	Electrical apparatus for switching electrical circuits, or for making connections to or in	260.586	0.004	203.006	203.002
300490	Medicaments consisting of mixed or unmixed products for	219.237	0.844	9798.207	218.393

	therapeutic or prophylactic purposes				
392690	Articles of plastics and articles of other materials of heading 3901 to 3914, n.e.s	214.208	0.162	621.616	214.046
100119	Durum wheat (excluding seed for sowing)	210.999	0	2.348	2.348
120190	Soya beans, whether or not broken (excluding seed for sowing)	197.25	0	96.174	96.174
740729	Bars, rods and profiles of copper alloys, n.e.s. (excluding such articles of copper-zinc base	182.018	0	5.025	5.025
854290	Parts of electronic integrated circuits, n.e.s.	181.315	0	3.471	3.471
853890	Parts suitable for use solely or principally with the apparatus of heading 8535, 8536 or 8537	165.315	0.984	287.372	164.331
999999	Commodities not elsewhere specified	163.318	0.076	821.059	163.242
870421	Motor vehicles for the transport of goods, with compression-ignition internal combustion piston	141.158	24.127	303.694	117.031
851762	Machines for the reception, conversion and transmission or regeneration of voice, images	129.512	0	182.912	129.512
520942	Denim, containing \geq 85% cotton by weight and weighing $>$ 200 g/m ² , made of yarn	126.195	0	222.636	126.195

Table 1: Tunisia's top 15 imported products, and India's share in total imports

Source: ITC Trade Map Database

Tunisia specific observations:

1. In total absolute value, India has an export potential of more than USD 16578 million worth of trade with Tunisia.
2. India has no/minimal⁴ presence in Tunisia's biggest import product (HS code 271012) constituting about 3.01% of Tunisia's total imports (in USD value). On the other hand, this product acquires 4.09% of India's total exports to the world. There is an apparent gap that holds the potential to be bridged. It is noteworthy here that, for India this is a processed export item as it is first imported (2016 value= USD 2233.720 million). For Tunisia, on the other hand, this is a consumption item. What this tells us is that there exists an opportunity of export from India to Tunisia.
3. Similar export potential exists for products with HS codes '271019, '853690, '300490, '392690, '120190, '853890, '999999, '851762, '520942. India exports these products to rest of the world, but not to Tunisia.

Table 1 also reveals that there is a demand and supply gap when it comes to India's exports and Tunisia's imports. Consider products with HS code 100119, '740729, '854290, in these products India's exports (to the world) are far low, which Tunisia's demand is high. Along with the specified products, there is a need to look at other such products which possess huge world demand but aren't produced in India for export. Among these, agricultural products can then be taken up for production in Agri-Export zones.

⁴ Value of "India's export to Tunisia" used in place of "Tunisia's import from India" due to unavailability of data

PART B. SERVICES' TRADE

Services have started to play a greater role in world trade. This section looks at services (among the top 15 imported services of Tunisia) showing a positive exponential growth rate, the one showing highest growth rate, and a few with negative growth trends. These have been used to comment upon the services' trade prospects with Tunisia.

1. "Government goods and services" experienced the highest exponential growth rate of 9.39% over a period of 2009 to 2017. These services include-
 - Government, Embassies and consulates
 - Government, Military units and agencies
 - Other government goods and services n.i.e.

Adoption of new constitution in January 2014, and the changes that followed in the working of the economy can be a possible reason for substantial jump in import of these services (from USD 164 million in 2013 to USD 287 million in 2014). This is a structural change that will continually cause an increase in import demand.

2. Growth over a large list of products has been stagnant for past 9 years.
3. Four products in fact experienced a negative growth rate of more than 5%. We list them in Table 3
4. Three services could be identified which have shown an upward movement in imports over a period of 2007 to 2015. These are "Government goods and services", "Freight transport, all modes" and "Travel, Personal, Education- related". The last two showcase a positive growth, albeit slow.

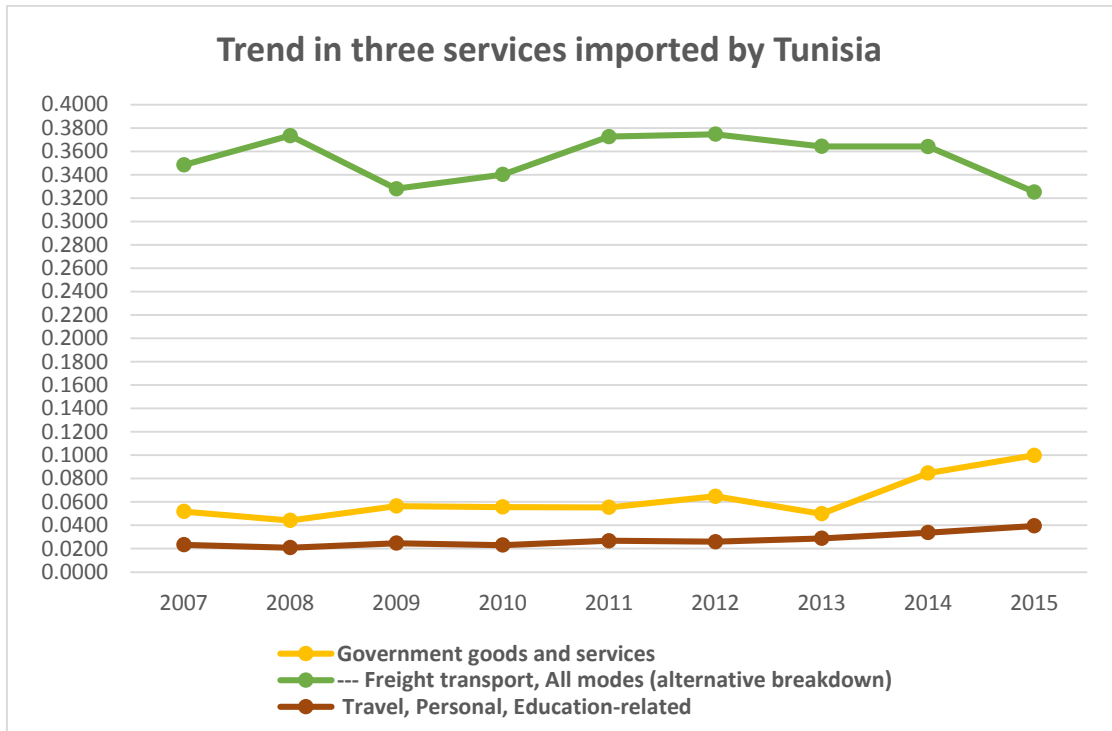
Code	Service label	Exponential growth rate (2007-2015)⁵
3a.2	Freight transport, All modes (alternative breakdown)	1.452755153
3.1.2	Freight transport, Sea	1.402333492
3.3.2	Other modes of transport, Freight	2.434289941
3.2.2	Freight transport, Air	1.068406903
4.2.1	Travel, Personal, Health-related	1.519055845

Table 2: Tunisia's imported services with >1% growth rate 2007-2015

Code	Service Label	Growth rate
3a.31	Other transport, All modes (other than passenger and freight, postal and courier) (alternative breakdown)	-5.81
3.1.3	Other transport, Sea (other than passenger and freight)	-5.98
3.2.3	Other transport, Air (other than passenger and freight)	-5.45
3.3.3	Other modes of transport, Other (other than passenger and freight)	-6.22

⁵ Own calculation, based on ITC Trade Map database

Table 3: List of services experiencing more than 5% negative growth rate



Graph 5: Trend in three important services imported by Tunisia

Three services, shown in Graph 5 have shown an upward trend in over a period from 2007 to 2015.

PART C. TRADE AGREEMENTS AND TARIFF STRUCTURE:

Product Code	Product Name	Simple Average (MFN Duty)
10	Cereals	22
27	Mineral fuels, mineral oils and products	1.36

30	Pharmaceutical products	3.13
39	Plastics and articles thereof	17.47
52	Cotton	12.92
72	Iron and steel	4.29
73	Articles of iron or steel	17.42
84	Nuclear reactors, boilers, machinery and mechanical	8.47
85	Electrical machinery and equipment and parts	13.08
87	Vehicles other than railway or tramway	21.13

Table 4: Tariff Rates imposed by Tunisia on India

Source: WITS (World Integrated Trade solutions)

Table 4 lists the products that are a part of India's top 15 exports to the world, and Tunisia's top 15 imports from the world. Trade data from WITS reveals that France (top exporter to Tunisia) faces zero trade duty on all these product chapters (except Cereals), due to preferential trade partner status. India is surely losing out on a lot, due to absence of a trade agreement between India and Tunisia.

Recently, a Memorandum of Understanding (MoU) has been signed between India and Tunisia in June 2016, in the field of Information and Communications Technology (ICT) and Digital Economy.

Lessons from EU-Tunisia FTA⁶:

- HS chapters 25 to 97 are completely liberalized under the FTA. This implies that agricultural goods, live animals are a protected sector, even for a friendly and old trade partner like EU. A trade agreement with India is likely to have these reservations as well.
- EU's investments agreement with Tunisia provides for cooperation on-
 - Means for identifying investment opportunities

⁶ Free Trade Agreement between the states of the European Free Trade Association and The Republic of Tunisia

- Provision of information on promoting investments in technical assistance, financial support, investment insurance etc.
- Creation of legal environment conducive for investments
- Planning and implementation of development projects

A consideration of these liberations is essential to decide on India's future investments in Tunisia.

III. POLICY RECOMMENDATIONS:

1. Products with trade potential:

- **HS code 300490-** Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes- This products is heavily exported from India to the world (2016 value USD 9798.20 million), but meagerly to Tunisia (2016 USD 0.84 million). Tunisia in fact is a big market for this product, having an import demand of USD 219.23 million in 2016.
- **HS code 120190-** Soya beans, whether or not broken (excluding seed for sowing)- This product is an important import commodity for Tunisia (2016 value USD 197.25 million). India exported USD 96.17 million worth of this commodity to the world, growing at an annual rate of 34% from 2012 to 2016. Evidently, there is further scope of India's capacity improvement, and exports to Tunisia.
- **HS code 392690-** Articles of plastics and articles of other materials of heading 3901 to 3914, n.e.s- For this product, while India's exports to Tunisia are declining at an annual rate of 34% from 2012 to 2016, India's exports to the world and Tunisia's imports from the world show a positive trend. There is a need to see why a reversal of export growth is occurring in this product.
- **HS code 851762-** Machines for the reception, conversion and transmission or regeneration of voice, images- India's exports to Tunisia for this product is a miniscule amount (captured as zero in thousand USD value). However, India exports this product in good quantity to the world (2016 value USD 182.91 million), and same is the case with Tunisia's imports (2016 value USD 129.51 million).

- **HS code 853890-** Parts suitable for use solely or principally with the apparatus of heading 8535, 8536 or 8537- Huge potential exists in this product too, with Tunisia importing only USD 0.98 million worth of this product from India; but importing a total of USD 165.31 million worth of this product from the world. India also exports this product in a big amount (2016 value USD 287.37 million). There is a clear opportunity that can be explored.
- **HS code 853690-** Electrical apparatus for switching electrical circuits, or for making connections to or in- Tunisia imports this product meagerly from India, but densely from the world (2016 values USD 0.004 million and 260.58 million respectively). India also exports this in huge amount. There is immense potential of supply to Tunisia.
- **HS code 520942-** Denim, containing \geq 85% cotton by weight and weighing $>$ 200 g/m², made of yarn of different... - India exports this product in large quantity to the world (2016 value USD 222.63 million), and Tunisia also imports this from the world (2016 value USD 126.19 million), but not significantly from India.

2. Services with trade potential:

- **Code 12-** Government goods and services- Tunisia has experienced a 9.39% exponential annual growth rate from 2009 to 2016. In India's list of top exported services, this service lists twelfth. Needless to say, there is ample scope for export of this service from India to Tunisia.
- **Code 3.1.2, 3.2.2-** Freight Transport, sea and air respectively- Both these services' import in Tunisia have been rising, albeit slowly, over a period of 2009 to 2016. India ranks these services fifth and sixth on its top exports' list. A trade potential exists, provided the growth of import by Tunisia is improved. Also, freight services expansion is directly linked with trade facilitation. A rise in freight services provides for future trade prospects.
- **Code 7-** Financial services- These segment has shown stagnancy in growth of imports. And the small magnitude of import value (2016 value USD 64.58 million) represents the restricted nature of this services sector. Similar is the fate of 'Travel' (Code 4), which has been stagnant in its import growth.

3. Investments:

India and Tunisia haven't been actively involved in bilateral FDI movement. With just 45 million USD⁷ FDI stock in 2012, India's presence in Tunisia's investments has been rather small. European Union, on the other hand, has a significant presence, through its FTA with Tunisia which provides various liberations, as mentioned in section II.

India's prospects of investing in Tunisia, to further India's "Asia-Africa Growth Corridor" agenda are dependent on Tunisia specific bilateral investment policy, given the economy's current economic challenges and aid grants.

4. Note on Negotiations:

There are a few important findings that India should consider for a meaningful trade and investment negotiation with Tunisia. These are-

- India's trade dependence on Tunisia is limited to just one product (HS 280920), that too only for close to 5% of the total imports of this product.
- No specific product(s) could be identified which would benefit India from an FTA with Tunisia. However, India can aspire for a liberalized access in Services exports to Tunisia, in exchange of goods' imports. A further study of whether exchange of 'goods for services' is the right approach, is required.
- Tunisia receives huge foreign aid, most of it coming from Middle East and the EU. The aids are directed towards triggering growth in the Tunisian economy. Hence, it wouldn't be surprising to see a gamut of competition for trade and investment in Tunisia, when growth in Tunisia actually takes off.

⁷ UNCTAD Bilateral FDI Statistics

Conclusion and Way Forward:

Tunisia appears to be a stagnant economy in terms of GDP growth and imports growth in goods and services. This report, in an attempt to bolster trade between India and Tunisia, has identified a list of products and services that hold the potential of steering trade growth. Other than this product- based identification, India must also look at the future policy agendas of Tunisia, and align its trade negotiations with Tunisia's long term goals. For example, the country in its 2020 roadmap stresses heavily on building and renewing transportation- rail and road, bridges and stations, metro rail networks. Similarly, infrastructure opportunities exist in water desalination plants and related pumping stations and supply network. This agenda of the Tunisian government offers two opportunities to India- one, supply of raw materials and two, advisory services. After all these economic considerations, one must understand the political story of Tunisia, such as its young democracy, small private sector, presence of terrorism, and most importantly, its financial dependence on developed world.