Committee on Balance-of-Payments Restrictions

DRAFT REPORT ON THE CONSULTATION UNDER
ARTICLE XVIII:12(b) WITH TUNISIA

1. In accordance with the provisions of Article XVIII:12(b) the Committee conducted the consultation with Tunisia. In conducting the consultation, the Committee had before it a basic document prepared by the Government of Tunisia (BOF/74) and a background document provided by the International Monetary Fund. The consultation was completed on 23 October 1967.

Consultation with the International Monetary Fund

2. Pursuant to the provisions of Article XV of the General Agreement, the International Monetary Fund had been invited to consult with the CONTRACTING PARTIES in connexion with this consultation with Tunisia. In accordance with the agreed procedure the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of Tunisia. The statement made was as follows:

"The Fund invites the attention of the CONTRACTING PARTIES to the Executive Board decision of August 11, 1967 and particularly to paragraphs 5 and 6 which read as follows:

'Tunisia has experienced successive balance of payments deficits which have depleted the country's foreign assets, and have sharply increased short-term indebtedness. The Fund welcomes the intention of the authorities to reduce reliance on suppliers' credits and foreign short-term means of financing.

'The system of controls on trade and payments remains restrictive, and continued reliance on bilateralism has resulted in discriminatory practices. The Fund notes with satisfaction the intention of the authorities to liberalize imports, and urges that efforts be made to reduce reliance on bilateralism.'

"The general level of restrictions of Tunisia which are under reference does not go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves."

\[1\] The full text of the decision appears in Annex I.
Opening statement of the representative of Tunisia

3. The representative of Tunisia made a statement to the Committee, the full text of which appears in Annex II.

Balance-of-payments position and prospects

4. Members of the Committee thanked the representative of Tunisia for his description of Tunisia's development plans and of the balance-of-payments effects of this effort, including the measures taken to restrict imports. They commended Tunisia for the determination with which development aims had been pursued, even in the face of the serious drought of 1966, and hoped that the future would be less difficult. Tunisia seemed to have been very successful in mobilizing resources for development without price inflation, though the expansion of credit did seem to pose certain dangers. Tunisia's foreign-exchange reserves had fallen to very low levels with the result that there had been possibly too much resort to financing external payments through short-term credits, and it would be of interest to hear how the Tunisian representative viewed this evolution. Planning had shown itself flexible in Tunisia's action to reduce investments somewhat when the shortfall of exports had produced a larger than anticipated deficit, and it was true that the deficit had occurred exclusively in the investment sector of the budget. Even so, it might however appear that the successful achievement of planned goals had been made unduly precarious by Tunisia's heavy dependence on foreign capital and quantitative restrictions as implementing factors. Another question in the minds of members of the Committee was whether the overall plan strategy had been well thought out in terms of what the desired ultimate balance should be, within the country, as between agriculture, mining and manufacturing; they inquired whether investment was being directed with a sensible and viable balance in mind.

5. The representative of Tunisia acknowledged in his reply that Tunisia shared many weaknesses common to developing countries, with a particularly severe handicap in its dependence on capricious weather conditions. He emphasized that if Tunisia was to overcome its state of under-development in general, and progress from being an agricultural primary economy as it had been in 1959, it had no alternative but to industrialize and modernize its economy, hence to invest. Thus, in order to push its development plans to the utmost, Tunisia had mobilized all its investment resources, both internal and external. The target was to be investing 25 per cent of GNP each year by 1970. Inevitably this programme was producing inflationary pressure at internal level, and also a continuing external deficit. In order to combat this two-fold tendency that was dangerous for the nation's economic growth, the Tunisian Government had in 1964 decided on a 25 per cent devaluation in the Tunisian dinar, accompanied by the adoption of an internal stabilization plan.
The plan had comprised the usual measures found in all European plans of the same type, namely strict control of public expenditure, freezing of wages and prices, tightening of credit, and a selective and restrictive import policy.

In addition to all these efforts, the Government had reduced its investment estimates in 1967 from D 140 to 110 million. In particular, the reductions had affected investments of a social character or infrastructure projects, whose certain benefits would be apparent in the longer term.

The Tunisian representative emphasized that this action had implied a definite measure of courage. The investments left unchanged were those that would be more beneficial in the short-term. In this way, Tunisia would have established the production conditions required to meet domestic market requirements and reduce imports. It would also have augmented its export capacity, and hence its foreign exchange earnings, for example in the case of investments in tourism and in the extraction and processing of phosphates and iron, lead, zinc and fluorspar ores.

Next year, irrigation and other agricultural programmes that would prove beneficial in the short-term would have similar priority, along with certain industries that had good prospects in terms of facilitating import substitution. With some successes in this direction, Tunisia hoped soon to reduce the trade deficit to about one third of what it had been in 1965 and looked forward to achieving in the not too far distant future a foreign trade volume which, if not in surplus, would at least be fairly tolerable for the country's economy as a whole.

6. On the question of the level of foreign exchange reserves, the representative of Tunisia acknowledged the possibility that certain favourable factors operating up to now might not continue, for example a decline in the volume of external assistance or a loss of trade preferences, but he assured the Committee that the outlook in this regard was being carefully watched. The cut-back in long term investments which he had mentioned reflected awareness by his Government of the need to avoid any further decline in reserves. It was also hoped to reduce imports, and the effort to increase domestic savings likewise showed some optimism as to the likelihood of attaining relative self-sufficiency by 1970, in particular through larger tourist receipts and increased earnings from phosphates and traditional agricultural products. The increasing debt service, which had been mentioned as a threat to reserves, should not be dramatized because in actual fact it amounted to only one fifth or one quarter of total export earnings, and hardly more than 5 per cent of gross national product.
7. Members of the Committee agreed that reduction of the commercial deficit should bring some relief of pressure on reserves, but doubted whether such changes could be sufficient to eliminate the short-term credit obligations which have piled up. Supplier credits which had been provided in 1964-1966 were no longer increasing, but in the first four months of 1967 it seemed that a great expansion of pre-financing by prospective purchasers had occurred. Members wondered at what cost such credits were being obtained and what alternative sources of financing capital goods imports were being explored, other than government credits. The representative of Tunisia assured the Committee that his Government was well aware that the substantial increase in supplier credits of 1964-1966 must not be repeated. With the concurrence of the International Monetary Fund and the International Bank for Reconstruction and Development, the Tunisian authorities had in fact reduced those credits considerably - much less than one half the amount had been authorized in 1967 as compared with the previous year - and they were now under very strict control and required prior authorization. It was a fact that replacements must be found for those expensive credits, for example producer credits. The best alternative, however, was to attract foreign direct investment, or foreign share participation in mining, agriculture or manufacturing; there had been considerable success in this direction, notably in petroleum production, in potash, phosphates and tourism, but much remained to be done. Another approach was to group exporters in order to obtain better prices for exports and to obtain an improved, uniform quality of products sold. This would be achieved in the current year with respect to wine, citrus fruit and olive oil. To a further question on the draft investment code, the representative of Tunisia said that a text had already been drawn up and now awaited parliamentary approval. The code would do more than codify existing practice and advantages: it set forth the benefits available to foreign and domestic investors, classified by size of the investment, number of jobs offered, location, and amount of value added that the project would yield. The code also established new uniform conditions which would enable prospective investors to know in advance precisely what fiscal and financial advantages they might expect. The greatest advantages were naturally reserved for the largest investors, but all foreign investors would be guaranteed automatic transferability of profits and freedom to repatriate their initial investment in the event of liquidation of their business.

8. Reference was made to an earlier suggestion by the representative of Tunisia that the Government of Tunisia might hope soon to do without textile imports and indeed to enter export markets. The representative of Tunisia was asked whether self-sufficiency was the aim of Tunisia's textile industry and whether Tunisia expected to be able to sell textiles internationally on a competitive basis, bearing in mind that the industry was developing behind severe import restrictions. In these circumstances he enquired whether the exports would require some form of export assistance. The representative of Tunisia replied that his country's
aims were not as ambitious as that. Tunisia did hope to be able to supply the domestic market with medium-quality textiles at competitive prices. Though prices were not currently as low as those of European producers, a recent merger of enterprises had created an integrated enterprise producing textiles of many fibres and even some ready-made clothing; the merger of the entire textile industry under State control into a single undertaking should produce substantial economies that would make it possible to sell competitively in three to four years. At that time, tariffs could be lowered to advantage. Meanwhile, a relatively small additional investment would place this enterprise in a very favourable position to sell in neighbouring African countries and the wider market would make its entire output much more profitable.

9. Two questions were also put to the representative of Tunisia concerning conditions of export of certain Tunisian products. First, the question was asked whether certain 10 to 15 per cent export taxes applied equally to exports regardless of country of destination. The representative of Tunisia stated that this tax, which had been introduced at the time of Tunisia's devaluation in 1964 to absorb windfall profits of the devaluation, applied to different products at different rates of between 10 and 15 per cent, but that there was no differentiation according to country of destination of exports. The export tax had already been suspended on iron, lead and zinc. Consideration was to be given to its elimination, at least on phosphates, as it had begun to interfere with export sales in competition with those of other countries offering lower prices in the world market, and the European market in particular. The representative of Tunisia acknowledged that elimination of the tax would create a question how to replace the lost revenue. Some increase in domestic activity as a result of higher exports might indirectly compensate to some extent, through greater revenues from other existing taxes. Undoubtedly too, improved tax collection methods could increase tax revenue. One member of the Committee had also noted another new development concerning a Tunisian export, namely the new French regulations putting an end to the mixing of North African wine with French wine. The representative of Tunisia confirmed that this new French regulation, which could be regarded as permanent, did present a new difficulty for Tunisian wine exports to France. It was, however, a measure taken exclusively for internal reasons in France, and Tunisia had reacted to this development by adopting a policy of selective quality control in an effort to market Tunisian wine as such and under its own labels. This policy might in some years yield net benefits to Tunisia. Further, the repercussion of the French measure on Tunisia was less than might be expected because the bulk of Tunisian output consisted of muscatel and mistelle wines which have their own market. Also, Tunisia had been aware of the difficulty facing wine exports for some time past and had long since adopted and put into effect a long-term policy of uprooting vineyards in order to replace them by crops with a better future.
Alternative measures of restoring equilibrium

10. In the view of members of the Committee, as already noted, a large measure of Tunisia's difficulties on balance-of-payments grounds appeared to be the result of the development plan having been geared to a level of investment which exceeded savings and foreign aid receipts. This long-term factor had recently been aggravated by the sudden reduction of agricultural production, amounting to roughly one third, and its replacement by deficit financing, which had had the predictable effects of inducing excess liquidity and an upward trend of prices. Tunisia had made commendable efforts to institute fiscal and revenue correctives, even in the face of considerable employment problems, but the question was asked whether additional emphasis on fiscal and monetary measures might not make possible an easing of direct controls and State intervention in the economic process, leading to a relaxation of restrictions.

11. The representative of Tunisia agreed that there was a relatively large sector of the economy in which public enterprise played a major part, but he emphasized that this had been more a matter of historical accident than a result of dogmatic policy. In this order of ideas, the Government had arranged with the SFI to relinquish part of its shares in the National Investment Corporation. And it was preparing to transfer to that same Corporation, in which it no longer had a majority interest, a large volume of shares in certain public enterprises. If this transaction went through, the Government would no longer have a majority interest in a number of undertakings over which it at present had complete control. In principle, the Tunisian Government had no objection to some of its shares being sold to private investors, even foreign ones. On the contrary, it was actively endeavouring to do so. As for the possibility of increased taxation, the representative of Tunisia emphasized that the 1968 budget did not provide for any new levies or for any significant increase in expenditures. Credit would remain restricted. The only fiscal increase one might expect would derive from the general increase in national income, on the one hand, and from more efficient collection of taxes, on the other hand. A very slight increase in the rate of certain taxes was, however, under consideration.

System and methods of the restrictions

12. Members of the Committee expressed concern about the number and character of Tunisia's bilateral trade and payments agreements. Various questioners inquired what justification there might be for giving preferential treatment to bilateral agreement partners in foreign exchange allocations and asked what advantage these agreements brought to Tunisia. Another member noted that there was persistent complaint from traders that Tunisian importers seem to
find it easier to obtain licences for imports from bilateral partners than for goods from other sources, even under quotas nominally "global". This had especially been the case at the end of 1966. The representative of Tunisia stated that there were no special provisions on payments in trade agreements with GATT Members, only separate quotas for the agreement partners. Another kind of agreement was the trade and payments agreement generally concluded with Eastern countries in order to make possible additional trade. Obviously, as no question arose concerning availability of foreign exchange in trade under payments agreements, no difficulties were likely in obtaining licences under such agreements. In actual fact, such imports must be compensated by exports. The latter were, however, limited by the level of production (mainly agricultural) and by commitments entered into vis-à-vis traditional clients in the convertible currency area. It appeared also that any difficulties that certain importers might have encountered at one time or another were in no way due to the nature of the agreements concluded with Tunisia's trading partners; they were attributable solely to the low level of Tunisia's foreign exchange reserves which had obliged the administration in certain cases to postpone issuance of import licences. It should be noted, however, that those delays had affected only products not considered essential for carrying out the country's economic and social development plan. In general, the representative of Tunisia emphasized that over 50 per cent of Tunisia's imports were liberalized, whilst only 3 to 4 per cent comprised prohibited imports. Moreover, the global quotas opened for all currency areas represented 11 per cent of the total, so that the remainder carried out under bilateral quotas made up at most 30 to 33 per cent. Another way of dividing trade by systems could be derived from the basic document, page 10, where imports by State or semi-State enterprises and those by importers' groups were shown at nearly 55 per cent of the total for 1966. As the procedure for carrying out such imports was the same as for global quotas (i.e. tenders and international consultations), the true proportion of trade under global quotas would perhaps be more like 11 per cent plus 55 per cent.

The criteria applied in issuing import permits for prohibited goods were justified by the reasons that had led the administration to introduce the prohibitions. Such measures had been taken in order to protect certain agricultural sectors or infant industries, and exceptions were only possible in the event of a shortage of any particular agricultural product or a temporary shortage of supplies from a local industry.
13. A member of the Committee asked about the limitations on use of AID dollars. The representative of Tunisia stated that there were no definite limitations as to source for individual products, but only lists of products which might be purchased and, separately, lists of sources from which procurement might be made of any of the listed items.

14. The question was also asked when the reform of the Tunisian tariff might be expected to become effective; there were reports that when this happened most non-essentials would be subjected to high tariffs but not to quotas whilst most essentials would go under global quota. The representative of Tunisia said that the new draft tariff in question was before the national assembly and that it was hoped that it would be approved in time to become effective on 1 January 1968. The same measure would also modernize the tariff nomenclature. Other changes in the Tunisian import system would follow later, and would be somewhat along the lines indicated in document BOP/74.

15. Members of the Committee then inquired about what appeared to some to be discrimination in Tunisia's import system in favour of countries of the franc zone, especially in the working of the tariff, which did not apply equally to goods of all countries but instead accorded preferences to franc zone countries. Members were interested to learn when Tunisia hoped to eliminate this system, what commodities were involved, and what amounts of trade were accorded preferential treatment. It was recalled that there had at one time been a customs union between Tunisia and France, succeeded by a trade and tariff convention, itself since modified by institution of quotas on French consumer goods imported into Tunisia. Accordingly the question might be whether margins of preference were greater now than originally and what was the position of France under the new tariff. The representative of France reminded the Committee that preferences between Tunisia and France were specifically authorized under Article I of GATT.

16. The representative of Tunisia noted that Tunisia had various criteria in mind in the evolution of its tariff and trade relations. Regional arrangements with other Maghreb countries were desired, and measures in that direction might be worked out. Also Tunisia sought to extend trade with other African countries and might move in that direction. Preferences to any other countries were more theoretical than actual and less likely to be extended in the future, unless in connexion with an EEC association. The only French imports really admitted free of quota were those liberalized to all countries. Basically, price and quality considerations determined the source of Tunisian imports over a very wide range of goods. Tariff preference to France was admittedly a reality, but to a less extent that had formerly been the case when free entry had applied to many French products. The Committee agreed that further exploration of this subject might more appropriately be left for the working party on accession.
Conclusion

17. Members of the Committee expressed the view that part of Tunisia's quantitative restrictions appeared to be necessitated by its balance-of-payments difficulties but that some appeared to be more definitely designed to protect local industry and to hasten development. Where imported consumption goods might compete with development programmes for resources it was understandable that Tunisia should be unwilling to tolerate competition between its development programme and consumption. Nevertheless, because of the risk that some new industries might continue indefinitely with unjustifiably high costs behind the protective wall, it was felt that Tunisia should nevertheless give serious consideration to a reduction of the protective effects of restrictions. The representative of Tunisia said that new industries would have to compete with foreign industry, but emphasized that no particular time could yet be specified for such an evolution. He could only assure the Committee that that was one of the longer-term purposes of the new tariff. Meantime, he reiterated his earlier comment that prohibited goods made up only about 3 per cent of Tunisian imports.